SESSION 1950

REPORT

of

THE JOINT COMMITTEE OF THE SENATE and HOUSE OF COMMONS

on

OLD AGE SECURITY

June 28, 1950

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
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R. Arsenault,
Clerk of the Committee.

TABLE OF CONTENTS

TABLE OF CONTENTS—*Conc.*

SECOND AND FINAL REPORT

PREFACE

On the 30th of March, 1950, the House of Commons passed the following Resolution:

> Resolved, That a joint committee of both Houses of Parliament be appointed to examine and study the operation and effects of existing legislation of the Parliament of Canada and of the several provincial legislatures with respect to old age security; similar legislation in other countries; possible alternative measures of old age security for Canada, with or without a means test for beneficiaries, including plans based on contributory insurance principles; the probable cost thereof and possible methods of providing therefor; the constitutional and financial adjustments, if any, required for the effective operations of such plans, and other related matters:
>
> That 28 Members of the House of Commons, to be designated by the House at a later date, be members of the joint committee on the part of this House, and that Standing Order 65 of the House of Commons be suspended in relation thereto;
>
> That the committee have power to appoint, from among its members, such sub-committees as may be deemed advisable or necessary; to call for persons, papers and records; to sit while the House is sitting, and to report from time to time;
>
> That the committee have power to print such papers and evidence from day to day as may be ordered by the committee for the use of the committee and of Parliament, and that Standing Order 64 of the House of Commons be suspended in relation thereto;
>
> And that a Message be sent to the Senate requesting that House to unite with this House for the above purpose and to select, if the Senate deems advisable, some of its members to act on the proposed joint committee.

By order of the House of the same date, the following members were appointed to act on the Committee on behalf of the House of Commons:

> Messrs. Ashbourne, Benidickson, Beyerstein, Blair, Brooks, Brown (*Essex West*), Corry, Coté (*Verdun-La Salle*), Courtemanche, Croll, Diefenbaker, Ferrie, Fleming, Gingues, Homuth, Knowles, Laing, Lesage, MacInnis, Macnaughton, Picard, Pinard, Richard (*Gloucester*), Robertson, Shaw, Smith (*Queens-Shelburne*), Weaver and Welbourn.

On the 31st of March, 1950, the following Resolution was adopted in the Senate:

> That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to examine and study the operation and effects of existing legislation of

the Parliament of Canada and of the several provincial legislatures with respect to old age security; similar legislation in other countries; possible alternative measures of old age security for Canada, with or without a means test for beneficiaries, including plans based on contributory insurance principles; the probable cost thereof and possible methods of providing therefor; the constitutional and financial adjustments, if any, required for the effective operations of such plans, and other related matters.

That the following Senators be appointed to act on behalf of the Senate on the said Joint Committee, namely, the Honourable Senators Burke, Doone, Fallis, Farquhar, Ferland, Horner, Hurtubise, King, Leger, Moraud, Stevenson, and Vaillancourt.

That the Committee have power to appoint, from among its members such sub-committees as may be deemed advisable or necessary; to send for persons, papers and records; to sit during sittings and adjournments of the Senate, and to report from time to time.

That the Committee have power to print such papers and evidence from day to day as it may order for the use of the Committee and of Parliament, and that Rule 100 of the Senate be suspended in relation thereto.

That a Message be sent to the House of Commons to inform that House accordingly.

The original membership of the Committee was changed on April 19th by the substitution of Mr. C. A. D. Cannon, M.P., for Mr. M. Gingues, M. P., and on April 27th, by substituting the Honourable Senator J. G. Fogo for the Honourable Senator J. J. Stevenson, and on May 25th by substituting Mr. J. W. Noseworthy, M.P., for Mr. A. MacInnis, M.P.

With the death of the Honourable Senator Antoine J. Leger on April 7, the Committee suffered the loss of a distinguished and experienced colleague who would have rendered valuable assistance had he been spared to participate in its enquiries and deliberations.

On April 4 the Committee adopted the recommendations of its Steering Committee with respect to procedure and agenda for future meetings. Due to the impending Easter recess of Parliament, the Committee then adjourned until April 18, from which date its enquiries continued without relaxation until June 2, when it held its last public hearing. Thereafter, it sat almost daily until June 23 while drawing up its report.

In the course of its deliberations the Committee received assistance from a number of officials of the Department of National Health and Welfare. The Deputy Minister of National Welfare acted as a technical adviser to the Committee and gave evidence on the old age pension program in Canada and the provisions for old age income security in other countries. He was assisted by the Director of Old Age Pensions, and by the Director of Research who also acted as the research adviser to the Committee. The Research Division of the Department submitted documentation on legislation in other countries, provided research assistance to the Committee during its hearings and under the direction of the Committee prepared a draft summary of the evidence for the factual part of the Committee's report. The Departmental Secretary and her staff carried out a number of secretarial duties for the Committee.

Assistance was also received from the Departments of Finance, Labour, Justice and Veterans Affairs. The Director of the Economic Policy Division, Department of Finance, gave testimony and provided technical assistance on

financials matters. Briefs and tstimony were presented by the Parliamentary Assistant of the Department of Veterans Affairs, the Chairman of the War Veterans Allowances Board, the Deputy Minister of Labour and the Deputy Minister of Justice. The valuable assistance of the Clerk of the Committee and his staff greatly facilitated the work of the Committee.

The Committee reports that it gave careful study to the operation and effects of the existing old age pension program in Canada and reviewed the present provisions for old age income security in Australia, New Zealand, Denmark, Sweden, the United States, Great Britain, France and Switzerland.

In considering possible alternative measures for old age security in Canada, the Committee gave special attention to representations received from provincial governments, from representatives of agricultural, labour, business and welfare organizations and from a number of well-known authorities in various aspects of social security.

The Committee reviewed financial and constitutional aspects of old age security and studied the relationship of old age security to other federal programs, such as war veterans allowances, unemployment insurance, government annuities, and the housing program under the National Housing Act.

In addition to the oral evidence, written submissions which were received from seven provinces and from twenty-two associations or individuals are incorporated in the Committee's printed record of proceedings and evidence, amounting to over 1,300 pages. Hundreds of other representations were received in informal letters. In all, the Committee held fifty-two sittings: thirty-eight for public hearings and fourteen in private sessions.

A copy of the Committee's minutes of Proceedings and Evidence is tabled herewith.

CHAPTER I

OLD AGE SECURITY IN CANADA

1. THE OLD AGE PENSION PROGRAM

The question of old age pensions first began to attract considerable attention in the House of Commons during the session of 1906-07. The first legislative action of the Canadian Parliament in this field was passage of the Government Annuities Act in 1908. There followed a series of committees which studied the problems of the aged. In 1924 a special committee of the House recommended that an old age pension system be established for indigent persons aged 70 and over; that the pensions be payable to British subjects of at least 20 years' residence; that the maximum rate be $20 a month and that one-half the cost be borne by the federal government. These resolutions were submitted to the provincial governments in 1925, and were then embodied in a federal bill which was introduced and passed by the House in 1926, but was rejected by the Senate. In 1927 the same bill was re-introduced and was passed by both the House and Senate.

The 1927 Old Age Pensions Act

The Act offered federal grants-in-aid to any province which would pass enabling legislation and sign an agreement with the federal government for the payment of old age pensions. Under such an agreement, administration, including payment of the pension itself, was left in the hands of the provincial government.

The Act authorized the federal government to reimburse the province for 50 per cent of a pension paid to any British subject 70 years of age or over who had resided in Canada for 20 years, and in the province in which application was made for five years; was not an Indian as defined by the Indian Act; was not in receipt of an annual income of as much as $365; and had not made a voluntary assignment or transfer of property for the purpose of qualifying for pension. The maximum pension payable was $240 annually, which was reduced by the amount of other income in excess of $125 annually. The Act authorized the Governor-in-Council to provide by regulation for certain administrative procedures, and to establish an interprovincial board to interpret and recommend alterations in the regulations.

Changes in the Act and Regulations

The legislation of 1927 remains as the principal basis of the present old age pensions legislation in Canada, but numerous changes in the Act and regulations have been made in the intervening years. Changes in the federal act can be made effective within a province only through new agreements signed by the provincial government. An existing agreement can be terminated by a province at any time through repeal of its enabling legislation, but cannot be

terminated unilaterally by the federal government without ten years' notice.[1] Changes in federal regulations, based upon decisions reached in meetings of the Interprovincial Old Age Pensions Board, are not effective in any province unless they are first specifically approved by provincial order in council. Thus, at every stage, the provinces are protected from unilateral action by the federal government, and the principle of mutual consent applies throughout.

Development of the Program Since 1927

The province of British Columbia was the first to pass enabling legislation. Pensions have been payable in the provinces and territories since the following dates:

British Columbia, September, 1927;
Saskatchewan, May, 1928;
Manitoba, September, 1928;
Northwest Territories, January, 1929;
Alberta, August, 1929;
Ontario, November, 1929;
Prince Edward Island, July, 1933;
Nova Scotia, March, 1934;
New Brunswick, July, 1936;
Quebec, August, 1936;
Yukon, April, 1949;
Newfoundland, April, 1949;

In 1931 the Old Age Pensions Act was amended to increase the federal share of pension payments from 50 per cent to 75 per cent. This action eased the financial burden on the provinces and, during the depression period, was helpful in facilitating the entry of some provinces into the program. Under the 1947 amendments, the provincial residence requirement was eliminated.

The maximum annual pension for a single person, which was set at $240 in 1927, was increased to $300 in 1943, to $360 in 1947, and to $480 in 1949. Maximum allowable income (including pension) for a single person was increased from $365 in 1927, to $425 in 1944, and to $600 in 1947. While the maximum annual pension in 1949 is double that provided in 1927, the allowable income, excluding pension, has decreased slightly. Evidence was presented to the Committee showing that the several upward adjustments of the pension rate have kept pace with the general rise in prices over the period.

Pensions to blind persons aged 40 and over were provided under the Old Age Pensions Act by an amendment in 1937; in 1947 the eligible age was reduced to 21 years.

Since 1936 there has been a twofold increase in the number of pensioners and a fourfold increase in cost. In March, 1950, there were about 282,500 persons[1] receiving old age pensions, representing about 43 per cent of all persons aged 70 and over. For the fiscal year ending March 31, 1950, the federal share of pension costs is estimated at $90 million, and the provincial share at $30 million.[2] Table I shows the increase in the number of pensioners and in the amount of federal and provincial expenditures, from the fiscal year ending March 31, 1937, the year in which the program first became effective in all provinces except Newfoundland and Yukon, up to March 31, 1950.

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[1] Section 4 of the Old Age Pensions Act reads as follows: Every agreement made pursuant to this Act shall continue in force so long as the provincial statute remains in operation or until after the expiration of ten years from the date upon which notice of an intention to determine the agreement is given by the Governor General to the Lieutenant-Governor of the province with which the same was made.

[2] The figures of cost and case load given here exclude the blind.

TABLE I

NUMBER OF PENSIONERS, AND FEDERAL AND PROVINCIAL EXPENDITURES, 1936–37 TO 1949–50

Year ended March 31	Number of Pensioners	Expenditures Federal ($ million)	Expenditures Provincial ($ million)
1937	146,524	21·1	7·0
1938	175,673	28·5	9·5
1939	181,514	28·3	9·4
1940	186,035	29·1	9·7
1941	185,946	28·9	9·6
1942	185,922	28·5	9·5
1943	183,601	28·9	9·6
1944	181,384	32·2	10·7
1945	187,512	39·5	13·2
1946	196,941	41·3	13·8
1947	209,029	43·8	14·6
1948	229,158	57·0	19·0
1949	251,865	64·2	21·4
1950	282,584	89·7	29·9

Provincial Supplementation and Health Services

Since 1942, certain provinces have paid supplementary allowances to the recipients of old age pensions; some of these allowances were discontinued as the maximum pension available under the federal Act was increased. At present, supplementary allowances are provided by three provinces: $10 a month by British Columbia and Alberta, and up to $2.50 a month by Saskatchewan. A supplementary allowance of $10 monthly is also paid in the Yukon.

Hospital and medical care and allied health services have been made available to old age pensioners in some provinces. Medical services are provided without cost to pensioners in Alberta, British Columbia, Nova Scotia, Ontario, and Saskatchewan, but there is considerable variation between provinces in the extent of care provided. In Manitoba, a municipality may provide medical care for pensioners and claim partial reimbursement from the province. Hospital services are provided without cost to pensioners in Alberta, British Columbia and Saskatchewan. In cottage hospital areas in Newfoundland, a prepaid hospital and medical care scheme is available; elsewhere in Newfoundland and in other provinces, pensioners may receive the hospital and medical care ordinarily available for persons unable to pay.

Operation of the Program

Administrative responsibility for the old age pensions program is vested in the province, where a Board or Commission acts as the pension authority. Federal aspects are administered by the Old Age Pensions Division of the Department of National Health and Welfare.

The federal authority examines each case individually as a part of its audit procedure, in order to ensure that pension payments are being made in accordance with the federal-provincial agreement. Beyond this function, federal jurisdiction in the operation of the program is limited. For example, the federal authority may not order the payment or increase of a pension not authorized by the province; however, it may refuse to reimburse a province for individual pension claims that do not meet federal legislative requirements. The federal authority does not deal with those applications which have been rejected by the provinces and, although it may bring complaints on individual cases to the attention of the provincial pension authorities, the power to take remedial action in any individual case rests entirely with the province.

General principles concerning methods of calculating income for pension purposes are written into the federal Act and regulations. Current income, with certain specific exceptions, is assessed at its actual value, as determined by the provincial pension authority. Real property is assessed by the provincial authorities in accordance with general principles laid down in the federal regulations.

The value of accumulated personal property of the pensioner must be calculated, on the basis of Canadian government annuity rates, as though invested in a government annuity at age 70. The calculation is made at the time of application, and the resultant amount continues to be calculated as part of the annual income, no matter what disposition of liquid assets is subsequently made. If, however, personal property is used for the payment of medical, nursing or hospital accounts, or for living expenses of the pensioner while not in receipt of pension, the annuity value may be recalculated. While the annuity calculation is a federal requirement, and is uniform for all provinces, some variation among individual cases has resulted from the 1948 increase in annuity rates. The new provisions are more favourable to old age pensioners, but only those pensions which have been awarded or revised since 1948 are calculated on the basis of the new rates.

The detailed administration of the means test is left to the provinces. The pensioner must make an annual statement of income to the provincial pension authority, which reviews each pension once a year. The considerable variation in the application of the means test in the various provinces is illustrated below.

(i) *Income from real property.* The federal regulations require that the provincial pension authorities shall consider as income an amount equal to the fair rental value of the property, from which expenses may, however, be deducted. British Columbia, Manitoba and Alberta take 5 per cent of the assessed value of the property, less encumbrances. Quebec follows the same procedure for property where the equity is less than $3,000, but employs graded rates if the equity is over $3,000. Ontario takes 4 per cent of the assessed value, whether encumbered or not. Nova Scotia and Newfoundland take a flat amount of $60 a year for a single pensioner and $120 for a married couple. Saskatchewan uses a graded scale, running from $60, where the equity in property is less than $1,000, to $180 where the equity is $3,000 or more. These variations in assessing fair rental value should however be considered in the light of different levels of property values and assessments in various provinces.

(ii) *Free board and lodging.* In determining the amount of pension, each provincial pension authority is required by federal regulations to take into account, with certain stated exceptions, the value of all income received by the applicant whether in cash or in kind. Where a single pensioner receives free board and lodging, his annual allowable income including pension is reduced by $125 in Manitoba, $180 in Alberta, British Columbia and Saskatchewan, $200 in Prince Edward Island, $210 or less in Nova Scotia, $210 in New Brunswick, $240 in Newfoundland, $300 in Ontario, $330 in Quebec and $360 in the Yukon. In general, the amounts, which are set in each case by the provincial pension authority, appear to be below the actual current values of board and lodging.

(iii) *Boarding house operations.* The calculation of income derived from board and lodging paid to a pensioner as the operator of a boarding or rooming house varies from province to province. When adult

sons and daughters live with their aged parents, and contribute from their wages to the cost of food and household maintenance, the provinces calculate in different ways the effect of these factors on the allowable income of a pensioner.

(iv) *Base year.* When selecting a base year to be used in calculating allowable income, some provinces choose the calendar year; others choose a base year which commences with the month in which pension is first received. If a pensioner becomes employed, and goes off pension temporarily, some provinces deduct income earned during this period from total allowable income, calculated according to the base year chosen. Other provinces, however, disregard income during a period of temporary employment, and create a new base year starting from the month when the person returns to the pension rolls.

(v) *Recoveries from estates.* Although each provincial pension authority is required to make recoveries from the estates of deceased pensioners, the federal act provides that claim must be waived where the estate passes to another pensioner, or to a person who has made a "reasonable" contribution to the support of the pensioner. Also, at the discretion of the province, claims against the first $2,000 of any estate may be waived, a procedure which most of the provinces have followed. Despite widespread fears and misconceptions on the part of pensioners and applicants, the number of claims actually lodged and the amounts recovered are very small. For the fiscal year 1949-50 the amount was one-half of one per cent of all pension payments. In Quebec, Manitoba, Saskatchewan and Prince Edward Island, the province secures its claim by placing liens on the real property of pensioners, as a means of preventing an estate from passing entirely to a person who has not contributed in any way to the support of the pensioner. In the other provinces, the practice of placing liens on real property has been discontinued.

For Canada as a whole, the proportion of persons aged 70 and over who are receiving pensions has remained substantially the same, except for a drop during the war, since the early years of the program. In Ontario and the three Prairie Provinces, the proportions were lower in 1949 than in 1938.

In the last few years trends have shown considerable regional variation. The proportion of persons aged 70 and over and in receipt of pension has remained fairly constant in the Prairie Provinces where the level of economic conditions, and especially of farm revenue, has been maintained since the war. In the Maritime Provinces, on the other hand, economic conditions have been less favourable, and the proportion of pensioners has risen.

At the present time there is wide variation between different provinces in the extent of participation in the program. In March, 1950, 76·3 per cent of persons 70 years of age and over in Newfoundland were receiving full or partial pensions, as contrasted to only 34·1 per cent in Ontario. Table II below shows this variation and indicates that the proportion of pensioners is highest in Newfoundland, with New Brunswick, Nova Scotia, Quebec and Prince Edward Island, following in the order named. It is of interest to note that the provinces with the lowest per capita personal income are those with highest percentage participation. Also, in the two provinces, Ontario and British Columbia, where the proportion of persons 70 and over receiving pension is lowest, the per capita personal income is highest. In general, therefore, it would appear that under present legislation the burden of old age pension costs in Canada falls most heavily on those provinces least able to support it.

Except for the Northwest Territories and the Yukon, where there are very few pensioners, and Newfoundland where the maximum pension of $30 per month[1] was lower than in the rest of Canada, the average pension in March 1950 varied from $34.36 in Prince Edward Island to $38.44 in Manitoba. Although this is a comparatively narrow range, it may be significant that the average pension payable in the Maritime Provinces is lower than in the rest of Canada. Other things being equal, it might be expected that in those provinces with higher per capita personal income, the average pension payable, as well as the percentage of pensioners receiving the maximum, would be lower than in those provinces where economic conditions are less favourable. However, since it appears from Table II that the reverse is the case, it seems difficult to escape the conclusion that the main reason for the small proportion of pensioners receiving the maximum in certain provinces is attributable to differences in the manner in which the pension authorities apply the means testing procedures.

TABLE II

NUMBER OF PENSIONERS, AVERAGE MONTHLY PENSION, PER CENT RECEIVING MAXIMUM PENSION, PER CENT OF POPULATION AGE 70 AND OVER IN RECEIPT OF PENSION, MARCH, 1950, AND PERSONAL INCOME PER CAPITA 1948, BY PROVINCE

Province	Number of Pensioners March 1950	Average Monthly Pension March 1950 (Maximum $40)	Per cent Receiving Maximum Pension	Per cent Population Age 70 and Over on Pension March 1950[1]	Personal Income per Capita, 1948[2]
Newfoundland	10,296	$29·47[3]	94·4[3]	76·3	....
Prince Edward Island	2,976	34·36	35·5	45·1	$548
Nova Scotia	19,966	35·41	46·5	57·4	682
New Brunswick	16,231	36·22	58·3	71·5	636
Quebec	69,017	37·73	82·5	49·3	784
Ontario	85,100	38·06	77·7	34·1	1,075
Manitoba	16,868	38·44	81·1	43·4	946
Saskatchewan	16,566	37·30	53·4	42·0	932
Alberta	16,445	37·90	77·9	43·5	998
British Columbia	28,988	37·17	69·9	40·0	1,024[4]
Northwest Territories	23	39·71	91·3	12·6	[4]
Yukon	108	38·65	88·9	32·9	[4]
CANADA	282,584	37·21	73·7	43·1	922

[1] Based on estimated population age 70 and over for June, 1950. [2] The latest date for which provincial data are available; no data for Newfoundland. [3] Maximum pension of $30 payable. [4] Northwest Territories and Yukon included in data for British Columbia.

The Canadian old age pensions program is characterized by a large measure of flexibility in the application of the means test. It has been argued that this flexibility is desirable, because social and economic conditions vary considerably in different parts of the country. On the other hand, it has been suggested that there should be greater uniformity in pension procedure, and that the federal government should provide more leadership in the program, particularly since it carries the greater part of the financial burden. The grant-in-aid technique of the present program involves joint federal and provincial responsibility, and represents a compromise, achieved by mutual consent, between uniformity and flexibility.

2. OTHER FEDERAL PROVISIONS FOR OLD AGE SECURITY

The Committee heard evidence on other federal government provisions for old age income maintenance: including war veterans allowances and Canadian government annuities.

[1] The maximum pension in Newfoundland was raised to $40 a month, effective April, 1950.

War Veterans Allowances

Certain veterans of the two world wars, the South African War and the North West Field Force are eligible for allowances under the War Veterans Allowance Act of 1946,[1] as amended. Allowances are payable at any age to veterans who are incapable of self-maintenance and who are unemployable for physical or economic reasons, provided that they have served in a theatre of war or have been awarded a disability pension of five per cent or more. Veterans who have reached the age of 60 (55 in the case of women) are eligible for allowances without evidence of unemployability. Widows, who have reached the age of 55, and orphans of eligible veterans may qualify for allowances.

Allowances are payable at the rate of $40.41 a month for a single veteran, reduced by the amount of other income in excess of $10.42 per month. In the case of a married veteran, the allowance is payable at the rate of $70.83, reduced by the amount of other income in excess of $20.83 a month. Thus the maximum amount of income allowed, including the war veterans allowance, is $50.83 per month for a single veteran and $91.66 for a married veteran.

Casual earnings are permitted if they do not constitute a regular source of income; also a recipient may hold an equity of $4,000 in the home in which he resides.

As of January, 1950 there were 26,170 veterans, 6,464 widows, and 73 orphans in receipt of allowances. Only two per cent of all veterans are receiving allowances but this group includes 25 per cent of all veterans aged 60 and over.

A special assistance fund was established in April, 1949 for particularly needy veterans. Provided total allowable income from all sources does not exceed the limit of $50.83, a single veteran may receive a supplementary allowance of up to $10 per month. A married veteran may receive a supplement of up to $15 per month provided total allowable income from all sources does not exceed $91.66.

Expenditures on war veterans allowances at present amount to about $22 million a year. It is estimated that the special assistance fund will require an additional $750,000 annually. The extension of eligibility in 1950 to British and Allied veterans who have been domiciled 20 years in Canada will increase the cost by $2,250,000, and bring the total expenditures on war veterans allowances to approximately $25 million annually.

It is expected that the number of recipients will increase considerably during the next few years, since the maximum number of veterans of World War I will reach age 60 during this decade. A peak figure will again be reached in the 1980's when the majority of veterans of World War II reach the qualifying age. While the number of potential recipients during this latter period might be three times as large as in the earlier period, the actual number of recipients will be influenced by economic conditions. It is also believed that the peak may be considerably reduced because of the development of rehabilitation services.

Canadian Government Annuities

The Government Annuities Act of 1908 was designed to promote habits of thrift so that the people might be encouraged and aided to provide for their old age. The Act, which has remained substantially unchanged since its introduction, provides facilities for the purchase of a Canadian government annuity by any person domiciled or resident in Canada.

[1] Based on the War Veterans Allowance Act of 1930 with amendments.

Under the Act two main types of annuity may be purchased. There is first, the *deferred* annuity, purchasable through a series of payments or by a single payment, where payment of the annuity does not commence until the date of maturity. Policies do not lapse through failure to make premium payments; payments may be resumed at any time. If the annuitant dies before the date of maturity, the premiums paid, together with interest at 4 per cent, compounded annually, are returned to the annuitant's estate. Secondly, there are *immediate* annuities, purchasable by a single lump-sum payment, under which the first payment of annuity commences one month from the date of purchase. In general, deferred annuities are purchased by younger people in order to make provision for their old age, while immediate annuities are purchased by older people in order to convert cash assets into an immediate income for the rest of their lives.

Of the 293,000 annuities sold since the beginning of the Act, about 258,600 were in force in March 1950. Of the annuities in force, 51,700 were vested, i.e., benefit payments had already commenced. The remaining 206,900 were deferred annuities not yet matured.

Annuities may be purchased on the ordinary life plan (payable as long as the annuitant lives), the guaranteed life plan (payable for a guaranteed period of 5, 10, 15 or 20 years, or for life whichever is the longer); or on the last survivor plan (purchased on the lives of two persons, with benefit payments continuing in the full amount until the death of the survivor). The maximum annuity which may be purchased on the life of one person, or on the lives of two persons jointly, is $1,200. In calculating premiums required for the purchase of annuities, an interest rate of 3 per cent has been used since 1948; prior to that, the rate was 4 per cent.

Premium payments may be deposited at any postal money order office or sent directly to the Annuities Branch of the federal Department of Labour. Annuity payments are made by cheque from Ottawa. For the fiscal year 1949-50, premium payments totalled about $63·1 million while benefit payments came to $23·4 million.

In addition to the purchase of annuities by individuals, provision is made in the Act for group annuity contracts with employers for the implementation of pension plans. Prior to 1940, most annuities were sold to individuals. Since that date, however, the number of annuities purchased through pension plans has exceeded the number of personal contracts purchased. As of March 1950, approximately 122,000 of the deferred annuities in force were under 846 group contracts and, in addition, 8,000 employees were participating in 300 pension plans under personal contracts. There were thus approximately 130,000 participants in pension plans, representing 63 per cent of all deferred annuities. Of the premium payments of $63·1 million referred to above, $36·5 million were made under pension plans.

The cost of administering annuities is met from general revenue. The average annual administrative cost per annuity in force has decreased fairly steadily, from $8.91 in 1930-31, to $7.16 in 1935-36, to $3.79 in 1940-41 and to $2.70 in 1949-50.

3. EMPLOYEE PENSION PLANS

Provision for old age income security is made not only through government-sponsored programs and individual savings, but also through employee pension plans.

It is difficult to describe a typical employee pension plan because the detailed provisions differ widely. A number of major decisions are involved in the setting up of a plan, which may be administered by an insurance company, by the Annuities Branch of the federal Department of Labour, or by a Board of Trustees or otherwise. In defining eligibility, membership in the plan may be determined by factors such as an age limit, a salary limit, or years of service.

In setting the pension formula, two major alternatives are involved. The pension may be an amount based on fixed contributions, payable by the employee and his employer, or it may be an annuity amounting to a certain percentage of the employee's earnings. Particularly during the early years, problems arise in the case of older employees who are members of the plan for such a short period that they can qualify only for a comparatively small pension.

The pension may be paid for life or for a guaranteed minimum period. Also, in some plans the employee may have the option of including his wife as a beneficiary by taking a somewhat smaller pension than he could otherwise receive. Provision is usually made in such plans for those who die while in the service of the employer or who leave before retirement.

In order to encourage the establishment of employee pension plans, the federal government has, for many years, allowed income tax exemptions on certain contributions paid to plans approved by the Pension Fund Division of the Department of National Revenue.

By March, 1950, the Department had approved 4,125 employee pension plans, covering approximately 627,000 employees. These figures exclude non-taxable entities, such as the federal government, provincial and municipal governments, local undertakings, hospitals, charitable and welfare organizations.

It has been estimated that in the tax year 1948 deductions claimed for superannuation purposes by individuals amounted to $67·5 million and by corporations to $65·5 million, a total of $133 million. This represented a tax concession by the federal government of approximately $33 million.

CHAPTER II

OLD AGE INCOME SECURITY PROGRAMS IN OTHER COUNTRIES

The Committee studied old age income maintenance programs in the following countries: Australia, New Zealand, Denmark, Sweden, the United States, Great Britain, France and Switzerland. In Section 1, the principal features of the various schemes in these countries are presented. Section 2 provides a comparative analysis of the programs in the first six countries listed.

1. PRINCIPAL FEATURES OF PROGRAMS

Australia

In Australia, where jurisdiction in the field of old age pensions is specifically assigned to the Commonwealth government, non-contributory pensions subject to a means test have been payable since 1908. At present, these "age pensions" are one of a number of income maintenance programs provided under the Commonwealth Social Services Consolidation Act of 1947.

An act establishing a compulsory health and old age insurance scheme based on contributions from employers, employees and the Commonwealth treasury was passed in 1938 but was never proclaimed. Another proposal which has been discussed in Australia is the progressive elimination of the means test through five successive steps.

The Age Pension

Age pensions are payable to men aged 65 and over and women aged 60 and over, subject to a means test and to qualifications of residence, citizenship, and character. The residence qualification is 20 years, with provision for certain temporary absences. In 1947, 37·9 per cent of persons in the eligible age group were receiving age pensions.

The maximum annual age pension of £110/10/—for a single person is reduced by the amount of outside income over £78 annually, so that total income, including benefit, cannot exceed £188/10/—. Where both husband and wife are eligible for pension they are treated for pension purposes as two single persons, and the income and property of the couple is assumed to be equally divided between them.

The means test includes both income and property qualifications. Income is defined as all moneys and valuable considerations received for the person's own use from any source, as well as any periodical payments. It does not include periodical gifts or allowances from a member of the beneficiary's family, payments from trade unions or a friendly society, or social security benefits.

Property subject to the means test includes all real or personal property, except the value of a permanent home owned by the pensioner or his wife, and any furniture or personal effects. In addition, certain exemptions are made for

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life insurance policies and annuities. With respect to the remaining property, the pension is reduced by £1 for every £10 of the value of that property between £100 and £450, and by £2 for every £10 of the remainder of the value; when the value exceeds £750, no pension is payable.

On two occasions Australia has provided for the automatic adjustment of pension rates with changes in a cost of living index but in both cases the provision was eventually repealed. Some of the reasons given for abandoning the procedure were: a drop in the index might cause considerable hardship to pensioners because of the low level of the pension; variations in the cost of living index were not reflected correspondingly in the cost of living of an age pensioner; changes in a general index might not reflect changes in a particular area; and the scheme involved considerable administrative work.

Finance

Age pensions are financed, along with thirteen other social security benefits, by earmarked taxes, through the National Welfare Fund. The Fund derives its revenues from a social services contribution, and from a pay-roll tax.

The social services contribution for individuals is a graded tax on income; for private companies, it is equal to the contribution which would have been paid by the shareholders on undistributed income of the company. The contribution, which is levied on total income, is paid by all single persons whose incomes are £105 or more a year, at a rate which rises from 1¼ per cent to 7½ per cent. Reduction in the amount of contribution because of dependents is effected in a manner which also produces an automatic raising of the income level at which payment of the contribution begins. In all cases, the maximum rate of 7½ per cent is reached at or before the level at which income tax is first payable; the exclusion levels for the social services contribution have always been lower than for income tax.

The financing of social services in Australia rests on a very broad base. In 1949-50 about 750,000 persons paid both income tax and the social services contribution, while over 2,000,000 paid the social services contribution only. Thus, over one-third of the total population pays into the National Welfare Fund through the social services contribution.

Employers are required to deduct both income tax and social services contribution from wages and salaries of employees. Income tax machinery is used to collect social services levies. No record of contributions is kept for the purpose of establishing eligibility for, or the amount of, benefit.

The pay-roll tax at the rate of 2½ per cent is payable by employers with payrolls in excess of £1,040 per annum.

The receipts of the Fund have always been larger than its expenditures so that by June 30, 1950, an estimated balance of £100 million will have been accumulated. The cost of age pensions for the year 1949-50 was estimated at £36 million or about 36 per cent of total expenditures on social services. There has been no contribution from the Commonwealth government, although the government which was in power at the time the Fund was established stated that it was prepared to underwrite the Fund when necessary.

It should be noted that both means test and non-means test social services are financed through a fund which has been built up from earmarked taxes. Thus, of fourteen programs financed through the National Welfare Fund, twelve are subject to a means test, and these twelve account for 66 per cent of the total expenditure of the Fund. Australian policy in this respect differs from that usually followed in North America, where means test programs have been financed traditionally out of general revenue, and earmarked taxes have been used to finance insurance programs.

Administration.

Age pensions are administered federally through the Commonwealth Department of Social Services, which has branch offices in the six state capitals, and regional offices in certain country areas. There is provision in the legislation for appeal to the Director General of Social Services.

New Zealand

Non-contributory old age pensions on a means test basis were established in New Zealand by the Old Age Pensions Act of 1898. At present, they are provided to needy persons aged 60 and over as part of a comprehensive social security program.

In 1940 a universal superannuation benefit was introduced. It is expected that when this program has matured it will replace the means test age-benefit for all persons aged 65 and over. However, the age-benefit will continue to be payable on a means test basis for persons in the 60 to 65 age group.

The Age-Benefit

The age-benefit is subject to a means test and to qualifications of residence and character. The residence qualification is ten years for those residing in New Zealand on March 15, 1938, and twenty years for those not resident at that time; in each instance, certain temporary absences are allowed. In March 1945 approximately 47·2 per cent of the population of eligible age were receiving age benefits. The percentage has risen only slightly since that time.

The maximum annual age-benefit of £130 for a single person is reduced by the amount of outside income over £78, so that the total income, including benefit, cannot exceed £208. When both spouses are eligible, a married couple receives an amount equal to twice the maximum benefit for a single person. When only the husband is eligible, the wife may, at the discretion of the Social Security Commission, be granted a benefit not exceeding £130, provided that this does not bring the total income above that allowed a married couple, namely £338. It is understood that this discretionary benefit is granted in every case.

The means test includes both income and property qualifications. Income is defined as all moneys and the value of all benefits received for a person's own use, but excluding social security benefits, and cash derived from the sale of property There are also certain exemptions for life insurance policies and legacies. The benefit is reduced by £1 for every £1 by which the outside income exceeds £78.

In determining the value of accumulated property, the home, furniture and personal effects are excluded. For every £10 of the remaining property over £500, the benefit is reduced by £1 annually. Property which produces an income is assessed as property or income, whichever produces the greater reduction in benefit.

The Superannuation Benefit

The superannuation benefit scheme in New Zealand establishes the principle of universal flat rate benefits, but mitigates the high cost of such benefits by providing a low initial benefit rate, which increases automatically every year and will not mature until 1988. The purpose of the scheme is to diminish the use of the means test over a period of time. Each upward revision of the means test benefit has led to a corresponding revision of the maximum superannuation benefit, so that, at the present time, the superannuation benefit is further from maturity than it was when introduced in 1940.

The superannuation benefit is payable to all residents who have reached the age of 65. There is no retirement test. The original annual benefit rate was £10, and this increases by £2/10/-yearly until 1988 when the maximum benefit of £130 will be reached. For 1950-51 the annual benefit rate is £35. At present, the low rate of the superannuation benefit results in the continued necessity for wide participation in the means test program. A person who finds the present superannuation benefit inadequate may apply for the age-benefit. If he is eligible under the means test, his superannuation benefit becomes part of his means test benefit. In 1948 the number of persons receiving only the superannuation benefit was 63,814, or 40·7 per cent of the population aged 65 and over.

Finance

Both the age-benefit and the superannuation benefit are financed, along with other social security programs, from the Social Security Fund, which is operated on a pay-as-you-go basis with a small contingency reserve. Annual expenditures are financed to the extent of 70 per cent through revenues from a social security contribution; the remaining 30 per cent is derived from annual appropriations from general revenue.

The social security contribution, payable by all residents aged 16 and over, is a specially earmarked flat rate income tax levied at the rate of 7½ per cent on all personal income and on net company income. In 1945-46, 62·9 per cent of the social security contribution represented the charge on salaries and wages, 13·4 per cent the charge on company income, and 23·7 per cent the charge on other individual income. The contribution is collected through the income tax machinery and is paid is the same manner as income tax. In cases of hardship the Commissioner of Taxes may exempt a person or company from payment of any instalment of the contribution. No record of contributions is kept for the purpose of establishing eligibility for, or the amount of, benefits.

In New Zealand as in Australia, earmarked funds are used to finance both means test and non-means test social services. Of eleven cash benefits paid from the Social Security Fund, seven are subject to the means test and account for 53 per cent of total expenditures on cash benefits.

The total cost of age-benefits in the fiscal year 1949-50 was approximately £12·2 million. The total cost of superannuation benefits was about £5·4 million. These amounts will increase considerably in the future because the rate of superannuation benefit is increasing and because the population is ageing in New Zealand as in other countries. In 1949-50 the two income maintenance programs for the aged accounted for 33·5 per cent of the total expenditures from the Social Security Fund.

Administration

The age-benefit and the superannuation benefit, together with other income maintenance programs, are administered nationally through the Social Security Department which maintains branch offices in nineteen local districts. There is provision for appeal to the Social Security Commission against any decision of a district official.

Denmark

Non-contributory old age pensions subject to a means test were first established in Denmark in 1891. Since 1933 they have been part of an integrated social security program.

Basic Pensions

Full basic pensions are payable to Danish citizens who have reached the age of 65 in the case of men, and 60 in the case of women, provided they are members of the National Sickness Insurance Scheme.

The basic pension is reduced for income in excess of 50 per cent of the full basic pension, for other pensions paid by state or local governments and for private pensions or bequests in excess of specified amounts. There is no information available regarding the position of real property under the means test.

Basic pension rates are fixed at three different levels corresponding to three cost of living areas; Copenhagen, provincial towns, and rural districts. Within these areas, there is further variation in pension rates according to changes in the cost of living index.

In 1947, 212,000 persons, or 48 per cent of the population of eligible age, were receiving pensions.

Supplementary Pensions

Four types of supplementary pensions are payable in addition to the basic pension:

(*a*) If application is deferred to age 67, the basic pension is increased by 5 per cent; if deferred to age 70, the supplement is 10 per cent of the basic pension;
(*b*) There is a supplement for dependent children under 15;
(*c*) Pensioners who have reached the age of 80 receive an annual age supplement amounting to 8 per cent of the basic pension; and
(*d*) Special supplements up to 15 per cent of the basic pension are payable for fuel, and clothing, in an amount varying according to need and to cost of living areas.

Finance and Administration

The Danish old age pensions program is financed out of public revenue from general taxation. Costs are shared by national and local governments in the ratio of four-sevenths national to three-sevenths local. Pension payments are made by local governments, which are reimbursed by the national government for its portion of the cost.

Sweden

Sweden has had a national compulsory pension program since 1913. At present, under the National Pensions Act of 1946, provision for old age income maintenance is made in three ways. The Act also provides widows' pensions.

The General Pension

The general pension is paid as of right to every Swedish citizen who has reached the age of 67. A married couple, where both spouses are eligible, receives eight-fifths of the general pension. Three-fifths of the general pension is payable to a widow who had reached the age of 55 at her husband's death. Since 1948 a cost of living bonus has been added to the general pension.

Supplementary Pensions

The general pension may be augmented by a supplementary pension which is subject to a means test. Supplementary pensions are of two kinds:

(*a*) a supplement for wives not eligible for the general pension, provided they have been married five years and have reached the age of 60; and

(b) national housing supplements adjusted to rental cost areas and in addition, local housing supplements based on individual needs.

Voluntary Pensions

Additional pensions, which may commence as early as age 55, may be purchased through voluntary national insurance. The premiums vary with the amount of benefit purchased.

Finance

The Swedish program is partially contributory although pensions are in no way related to contributions. Every citizen, with certain minor exceptions, is required to make an annual pension contribution from age 18 to 66 inclusive. For single persons, the contribution is one per cent of income that is subject to income tax; for a married couple, it is one-half of one per cent of the couple's assessable income. There are, however, maximum and minimum contributions.

The pension program is financed through the National Pension Fund, which is operated on a pay-as-you-go basis with a small contingency reserve. In the fiscal year 1948-49, 79 per cent of national pension costs came from general revenue, 17 per cent from the pension contribution, and 4 per cent from interest on the National Pension Fund. Twenty per cent of the total government contribution came from local governments.

Administration

The pension program is administered nationally through the National Pension Board. All pension claims are dealt with initially by local pension committees which are in part appointed by the Crown and in part elected by the local district. Liaison between the local pension committees and the Pension Board is effected through district pension officers appointed by the Board.

The United States

Before 1935 responsibility for the provision of assistance to aged persons rested solely with individual states. The federal Social Security Act of 1935 provided federal grants-in-aid which encouraged the establishment of new state assistance programs, and extended and co-ordinated existing programs. It also established a federal compulsory contributory insurance program which was to be the foundation of a national system of old age security. It was expected that Old Age Assistance (OAA) would decline in importance as the Old Age and Survivors Insurance program (OASI) matured, so that eventually most of the working population would be insured against the contingencies of old age, while assistance would be required only as a supplementary and residual program.

The development of OASI since 1935 has been hindered for a variety of reasons, including the difficulty of extending coverage and the absence of any long-range financial plan. The rise in price levels since the beginning of the program, and particularly since the war, was not anticipated, with the result that benefits, which are calculated on wage records since 1937, are low in comparison with the current cost of living. Similarly, the income limit on which contributions are payable, and the amount which a retired worker may earn in addition to benefit are very low in comparison with current wages and salaries.

At the present time, OAA remains the major income maintenance program in terms of average monthly payment, number of recipients and total expenditures. The average monthly payment in December 1949 was $44.76 in the case

of OAA recipients as compared with $26 in the case of retired wage earners insured under OASI. In the same month the number of recipients under OAA was 2·7 million, whereas the number of aged beneficiaries under OASI, including retired workers, dependents and survivors, was 1·9 million. Moreover, of these 1·9 million, about 10 per cent were receiving additional assistance under OAA. For the fiscal year 1948-49 old age assistance payments amounted to about $1,259 million, while OASI benefits to aged beneficiaries amounted to about $442·5 million.

Proposals now before Congress suggest that the administration believes the present program to be inadequate but that it continues to support "an adequate and universally applicable basic social insurance system" as the national foundation of old age security in the United States. A Bill, H.R. 6000, passed by the House of Representatives, would revise and extend OASI. The Bill has been amended by the Senate Committee on Finance, and is now being considered by both Houses.

OLD AGE ASSISTANCE

Title I of the federal Social Security Act of 1935 authorizes the federal government to appropriate sums of money to enable each state to furnish financial assistance to aged "needy" individuals. The receipt of federal grants-in-aid by the states is conditional upon the fulfilment of certain federal requirements. Each state must submit for the approval of the Federal Security Administrator, a plan for granting OAA.

The state plan must provide that the OAA program be in effect in all political subdivisions of the state and be administered or supervised by a single state agency. It must provide for state financial participation; for fair hearings before a state agency for any applicant denied assistance; and for certain standards of administration, including personnel standards on a merit system. In addition, the state agency must, in determining need, take into account any other income and resources of the applicant.

The state plan must not provide for an eligible age of more than 65 years; a residence requirement of more than five out of the nine years immediately prior to application, including the year immediately preceding application; or any provision excluding a citizen of the United States.

A state plan meeting these requirementes must be approved by the Federal Security Administrator. Once the plan has been approved it has the effect of a contract between the state and federal governments.

Under the Act the federal grant provides an amount equal to three-quarters of the state expenditures on assistance payments or three-quarters of the product of $20 multiplied by the total number of OAA recipients for the month, whichever is less, plus one-half of the amount, if any, by which such state expenditures exceed $20 times the number of recipients for a month. The federal government contributes only towards the first $50 of a monthly assistance payment and does not contribute towards assistance paid to a person under 65 years of age.

The federal government also pays the state an amount equal to one-half of the cost of "proper and efficient" administration as determined by the federal authority.

Assistance Payments

Within this legislative framework, the state administers the OAA program, and determines the existence of need and the extent to which it will be met. A needy person is usually described as having "insufficient income or other

resources to provide reasonable subsistence compatible with decency and health." The amount of assistance granted in an individual case depends on the difference between the applicant's income and resources and his basic subsistence requirements as determined by the standards of the state or local administrative agency.

This procedure, the budgetary deficiency method of determining need, differs from the means test in which a fixed maximum assistance payment is reduced according to the excess of the applicant's means over a defined allowable income. The budgetary deficiency method implies that there will be considerable variation among individual cases. Costs and standards of living, extent and definition of need, objectivity and efficiency of administration are matters affected by local circumstances.

At the state level there are matters of policy which cause variation as between one state and another. The state may set out certain budgetary requirements, certain limits on other income and resources and certain maximum amounts of assistance payable. All these standards will apply only to one state; provisions in any other state may be different.

Apart from policy, the fiscal capacity of a state affects its old age assistance program. Where payments are made from consolidated revenue, the appropriation for OAA may be fixed in advance. Where payments are made only from earmarked taxes, the amount of money available for assistance payments may be limited. Average per capita income is higher in some states than in others, and the amount of taxable resources varies considerably in different sections of the country.

As a group, industrial states, where a large proportion of the aged population receive benefits under the insurance program (OASI), differ from agricultural states, where the proportion receiving OASI is less significant and the need for OAA is correspondingly greater.

In December, 1949, assistance payments were made to some 2.7 million persons or about 24 per cent of the population aged 65 and over. The national average monthly payment was $44.76 This figure is higher than the average pension paid in Canada. On the other hand, eligibility in many states is narrower than in Canada because income and property limits tend to be lower, although the value of a home is often exempt from the calculation of means.

The average monthly payment by a state in December, 1949, ranged from $18.92 in Mississippi to $77.89 in Colorado. In general, the states with higher average per capita incomes are able to provide higher average monthly payments, but in some states where payments appear to be very high, income and property qualifications are particularly strict, so that the high pensions are being paid to a relatively small percentage of the aged population.

Finance

The federal share of the cost of OAA comes from general revenue. In 1947 two-thirds of the states' share came from general revenue, while one-third came from earmarked taxes, usually sales taxes. However, the great majority of the states employ only general revenue, and the use of earmarked taxes to finance OAA is decreasing.

There has been a very substantial increase in the cost of OAA since 1937 because of the ageing of the population, the increase in the numbers of needy aged, and because of changes in the federal matching formula. In the fiscal year 1936-37 the total cost was $250 million. By 1948-49 the total cost had risen to $1,300 million.

The federal share of assistance payments had increased gradually. For the calendar year 1936, the federal government paid 42.8 per cent of OAA payments. This increased to 52·6 per cent in 1947 and to 54·8 per cent in the fiscal year 1948-49.

The maximum federal contribution to any assistance payment is $30; the average federal contribution is estimated at $25, or 62 per cent of a $40 monthly payment. Thus, the federal contribution is lower, both absolutely and proportionately, than in Canada.

Since 1936 the larger share of the non-federal cost of OAA has been carried by the states and the proportion payable by local governments is steadily diminishing. In the calendar year 1947, state and local funds accounted for 41·2 per cent and 6·2 per cent, respectively, of the total assistance and administrative costs of OAA.

Administration

Within the federal requirements set out above, the old age assistance program is usually supervised by the state agency and administered locally by either state or local (county) offices. As mentioned earlier, the state plan must provide for fair hearing before the state agency. On the federal level, the Bureau of Public Assistance of the Social Security Administration administers the program through its central and regional offices.

Through the Bureau, consultative services are available to the states on administrative and research problems connected with all aspects of public assistance.

Since 1939 state administrations have been subject to continuous review by the federal Social Security Administration. The review is concerned with policy rather than with individual cases, and has been exercised on a flexible and consultative basis. Part of the administrative review is concerned with assisting the states in broad personnel problems relating to examination, certification and selection procedures, salary classifications, and so on.

OLD AGE AND SURVIVORS INSURANCE

Title II of the federal Social Security Act of 1935 established a national compulsory old age insurance program based on contributions levied against employers and employees and with benefits to be paid at retirement regardless of means. The Act originally provided for benefits only to retired persons; in 1939 it was amended to include certain dependents and survivors of insured persons.

Coverage

OASI covers wage earners and salaried employees in commerce and industry, with many exclusions. The most important of these are persons in agricultural employment, the self-employed, employees of federal, state and local governments, domestic servants, and persons employed in non-profit institutions.[1] Railway employees are also excluded.[2]

It was expected, originally, that coverage under OASI would be extended gradually towards the ultimate goal of universality. Up to the present time,

[1] H.R. 6000 would extend coverage to certain urban self-employed persons, certain workers in agricultural processing, lay employees of non-profit organizations, steadily employed domestic servants, federal employees not covered under existing retirement systems and, on a voluntary basis, the employees of state and local governments.

[2] The Railroad Retirement Act provides protection to about 1·5 million railway employees, including a substantial group of Canadian railway workers.

however, administrative problems, opposition by certain groups, and in some instances, constitutional difficulties have prevented any substantial change in the categories of employment originally included in the program. Thus OASI covered between 52 per cent and 57 per cent of the employed labour force in 1940; by 1949 it covered 56 per cent.[1]

The exclusion of agricultural employment from OASI has led to a disparity between industrial states, where there is a concentration of OASI recipients among the aged population, and agricultural states, where the needy aged must depend largely on the assistance program. There are indications at the present time that agricultural groups are beginning to see the advantages of being included under OASI.

Insured Status

The primary qualification for benefits under OASI is the achievement of some form of *insured status*. A worker's insured status depends upon the number of quarters of coverage, that is, the number of calendar quarters in which the worker has earned not less than $50 in covered employment.

(*a*) *Fully insured status.* At any given time a worker is fully insured if he has coverage in one-half of the calendar quarters since January 1937 or since age 21. Fully insured status entitles a worker and his eligible dependents or survivors to benefits only at his retirement or death. However, the status of the worker may change during his working life according to his movement in and out of covered employment.

(*b*) *Permanently insured status.* After he has achieved a total of 40 quarters of coverage, a worker has permanently established his right to benefits for himself and his eligible dependents and survivors. Permanently insured status entitles a worker to the same benefits as does fully insured status, and once attained, cannot be lost for any reason.

(*c*) *Currently insured status.* A worker who was insured in covered employment for six or more quarters out of the 13 immediately preceding his death has established a right to survivors' benefits for his eligible widow and eligible dependent children. Benefit rights under currently insured status are therefore much more limited than under fully or permanently insured status.

In January 1949, of about 78 million living persons who had ever made any contribution to OASI, 13 million were permanently insured, 25 million were fully insured, 5 million would, in the event of death at that time, have been currently insured, and the remaining 35 million had contributed but were not insured.

Types of Benefit

The amount of benefit under OASI is directly related to individual wage records. It is not related to the degree of insurance status. There are four main types of benefit:—

(*a*) *Primary benefits.* The primary insurance benefit payable to a retired worker permanently or fully insured at the age of 65 is based on his *average monthly wage*. To calculate the average monthly wage, the amount of total earnings in covered employment is divided by the *total* time which has elapsed since 1937, regardless of the way in which an individual may have divided his time between covered and uncovered employment, and regardless of any periods of unemployment.

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[1] Under H.R. 6000, OASI would cover an estimated 45·7 million workers, or about 71·6 per cent of the employed labour force in 1951.

The monthly primary benefit consists of:—

(i) 40 per cent of the first $50 of the average monthly wage, plus

(ii) 10 per cent of the next $200 of the average monthly wage, plus

(iii) one per cent of the sum of (i) and (ii) for each calendar year in which the worker earned at least $200 in covered employment.

The benefit formula is thus weighted in favour of low income workers as well as those who have been in covered employment continuously since 1937. The wage record after age 65 is not included in the calculation unless it would raise the benefit rate. At present, 55 per cent of benefits payable under OASI are primary benefits.

(*b*) *Dependents' benefits.*. Dependents' benefits are payable to eligible wives at age 65 and to children under age 18 at a rate equal to one-half of the primary benefit.

(*c*) *Survivors' benefits.* Survivors' benefits are payable to eligible widows at the rate of three-quarters of the primary benefit and to eligible children or parents at the rate of one-half the primary benefit.

(*d*) *Lump sum death benefit.* Where there is no survivor immediately eligible for any monthly benefit, a lump sum equal to six times the primary benefit is payable to any person paying the funeral expenses.

The Retirement Test

If a retired worker earns $15 or more in covered employment during any month neither he nor any of his dependents is entitled to benefit in that month.[1]

Amount of Benefit

(*a*) *Maximum and minimum benefits.* There is a minimum primary benefit of $10 a month and a minimum family benefit of $20 a month. There is no fixed maximum primary benefit but the effective maximum rises slightly each year according to the benefit formula. The maximum family benefit is $85, 80 per cent of the average monthly wage, or twice the amount of the primary benefit, whichever is least.[2]

(*b*) *Adequacy of benefit.* As OASI matures, the benefit formula operates in such a way as to increase slightly the rate of benefit payable each year. The maximum monthly primary benefit payable rose from $42 in 1940 to $44.80 in 1949. The average monthly primary benefit rose from $20.67 in 1940 to $26.00 in 1949. This represents an increase of 19 per cent in average monthly benefit but, during the same period, the consumers' price index rose by 70 per cent and wages in manufacturing industries rose by 125 per cent.

Under the present law, a worker who has spent 40 years in covered employment and has earned an average of $250 a month will receive at retirement a primary benefit of $56 a month.

Finance

OASI is entirely contributory. The original intention was to maintain an actuarial reserve, but since contributions would be greater than benefit payments in the first years of the program, it was decided to set the contribution rate,

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[1] H.R. 6000 would increase allowable earnings for a retired beneficiary from $15 to $50 a month.

[2] Minimum primary and family benefits would be doubled and maximum family benefit would be increased to $150 or 80 per cent of the average monthly wage whichever is less.

beginning in 1937 at one per cent each, for employers and employees, with contribution being levied only on that portion of annual salary or wage below $3,000, and to increase this rate gradually to 3 per cent each by 1949. By 1939, however, opposition had developed to the large reserve which was accumulating, and the increase in contribution rates was deferred and continued to be deferred until 1950. For 1950 and 1951 the rate will be 1½ per cent each for employers and employees; from 1952 on it will be 2 per cent each under the present legislation.[1] Contributions are collected as long as a worker remains in covered employment.

The 1939 amendments, which deferred the increase in contribution rate, departed in other respects as well from the principle of an actuarial reserve by changing the benefit formula so as to increase benefit rates; by making benefits payable earlier than was originally planned; and by adding dependents' and survivors' benefits to the program. The present Fund, therefore, is operated on a modified actuarial reserve basis. On June 30, 1949, the balance of the Fund stood at $11,310 million, but on current calculations this represented an actuarial shortage of $7,000 million.

The revenue of the Fund is derived primarily from the contributions of employers and employees, which amounted to $1,691 million in 1948-49. Additional revenue is derived from interest on investments which amounted to $230 million in the same year. An appropriation from general revenue is authorized when required, but up to the present time no such appropriations have been made.[2]

Benefit payments under OASI have increased from $64 million in 1940-41 to $700 million in 1950. Administrative expenses have risen from $27 million in 1940-41 to $53 million in 1948-49. At present they represent about 3·1 per cent of contributions and 8·1 per cent of benefits.

Administration

OASI is administered entirely by the federal government. The Bureau of Internal Revenue is responsible for collecting insurance contributions and issuing benefit cheques. Contributions are collected with income tax at the source, and since January 1950 have been entered by the employer on the same form as income tax.

All other administrative functions are carried out by the Social Security Administration through the Bureau of OASI. The Bureau has a central office in Baltimore and a net-work of local and itinerant offices throughout the country. The main function of the Bureau is the maintenance of wage records for all workers who have at any time earned wages in covered employment. As of January 1, 1950 the Bureau had on file 80·7 million individual accounts.

The Social Security Act provides that appeals can be made to the Appeals Council and can be carried to the federal courts.

Great Britain

Modern legislative provision for the aged in Great Britain began with the Old Age Pensions Act of 1908. This non-contributory means test program was followed in 1925 by a second program, a contributory plan under the Widows',

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[1] Under H.R. 6000 the contribution rate will continue to increase until 1970 when it will be stabilized at 3¼ per cent each.

[2] Under H.R. 6000 the provision for appropriations from general revenue would be withdrawn.

Orphans', and Old Age Contributory Pensions Act. In 1940, a scheme of supplementary pensions on a means test basis was introduced for needy pensioners. These measures were further developed and benefits substantially increased in the retirement and assistance provisions of the National Insurance and National Assistance Acts, which came into full operation in July, 1948. The retirement pension is one of a number of benefits to which a contributor to National Insurance is entitled. National assistance is available at need to those of any age over 16 years, including the aged who fail to qualify for either a retirement or non-contributory pension or who, because of special circumstances, find either of the pension benefits inadequate to meet their minimum needs.

THE NATIONAL INSURANCE PROGRAM

The National Insurance Act of 1946 introduced a unified system of compulsory insurance for a variety of income maintenance programs, based on the principle of uniform flat rate benefits and a fixed scale of flat rate contributions.

Coverage

Every person in Great Britain who is over school-leaving age and under pensionable age (65 for men and 60 for women) is compulsorily insured and continues to be insured through life. New-comers to Great Britain are insurable after 26 weeks' residence. Coverage is comprehensive, but not yet universal.

For insurance purposes, the population is divided into three classes: employed, self-employed and non-employed.

A man and his wife are usually treated as a unit but an insured woman who marries may choose to continue insurance and to qualify for benefits in her own right. Persons with incomes not exceeding £104 a year may apply to be exempted from liability to pay contributions.

Contributions

Contributions are payable by the insured person, by the employer, in the case of those who are under contract of service, and by the Exchequer which makes a supplementary contribution on behalf of each insured person. In addition to these supplementary contributions, Exchequer grants are paid annually in support of the program. Insured persons make contributions, according as they fall, week by week, into one of the three classes of coverage, and contributions paid in one class may be treated as equivalent to a corresponding number in another class.

If retirement is deferred, the insured person's contribution is payable to an age not later than 70 for men and 65 for women, but the employer's contribution in respect of an employee continues as long as the latter remains at work. Contributions by non-employed persons are normally paid only up to pensionable age.

Rates of contribution vary slightly for the three classes of insured persons and also, to some extent, in accordance with age, sex and rate of remuneration. The weekly rate for an employed man is 4s. 7d. while the employer's contribution on his behalf is 3s. 10d. The weekly contribution of a self-employed person is 6s. 2d. and of a non-employed person 4s. 8d. Lower rates are established for women, with further reduced rates for employed persons in lower income groups and for boys and girls under 18. These rates will be increased slightly in 1951.

Under certain conditions the weekly contribution may be credited without being paid, as for example during periods of unemployment, incapacity for work or, in the case of students, full-time study. Credited contributions count for some purposes in the same way as contributions actually paid but, in general, no benefit is payable unless a prescribed number of contributions has actually been paid.

Benefits

Benefits are intended to provide a uniform subsistence minimum based broadly on the cost of living; benefits and rates are subject to review every five years.

A basic retirement pension of 26s. a week is payable at pensionable age to a person who has a yearly average of not less than 50 weekly contributions paid or credited, and who has contributed for three years between the date of last entry into insurance and the date of attaining pensionable age. The basic pension is also payable to a self-insured wife.

The basic pension is increased by 16s. a week for a dependent wife, and 7s. 6d. for one dependent child.

The basic pension and the pension in respect of a wife are subject to reduction on a sliding scale if the yearly average number of weekly contributions paid does not reach the required minimum of 50 weeks. If the yearly average paid or credited falls below 13 weeks, no retirement pension is paid.

If retirement is deferred, the amount of pension is increased by 1s. weekly for every 25 contributions paid during the first five years after reaching pensionable age. The pension payable in respect of a wife is likewise increased for every additional contribution made while both are over pensionable age. At the age of 70 in the case of men and 65 in the case of women, the retirement pension is payable without further increase. It was estimated, for purposes of cost calculations, that 40 per cent of persons retire at 65, 30 per cent between 65 and 70, and 30 per cent at 70 or over.

A late age entrant into the scheme makes contributions and may qualify for retirement pension after a specified number of years, or may choose at pensionable age, to receive a refund of contributions, with interest.

The number of persons receiving retirement pensions in April, 1949 was 4,150,000, or 63·5 per cent of all persons of pensionable age.

Other related provisions of the insurance program include benefits for widows and death grants payable for expenses connected with the death of an insured person, or of a member of the immediate family.

Conditions of Retirement

A person claiming retirement pension within the first five years after reaching pensionable age must not work for more than a limited number of hours during any week. During this five year period earnings in excess of 20s. a week are deducted from the amount of retirement pension. At the age of 70 in the case of men and 65 in the case of women, the retirement pension is payable without restriction.

Finance

The National Insurance program is only partly contributory in the direct sense. It is financed through the National Insurance Fund, a current account

which derives its revenues mainly from the contributions of insured persons and employers, from Exchequer supplements, and from Exchequer grants. The Fund also receives interest from the National Insurance (Reserve) Fund, a capital account containing the assets of former insurance schemes now superseded. Capital assets may be transferred, when necessary, from the Reserve Fund to the National Insurance Fund, by resolution of the House of Commons.

The program is financed on a pay-as-you-go basis. The cost of retirement pensions is expected to rise from £238 million in 1948 to £501 million in 1978, when the scheme will approach maturity. Costs will increase during this period partly because of the ageing of the population and partly because full pensions will be paid to many persons who entered insurance after the age of 16 and have therefore not contributed throughout the whole period from school-leaving age to pensionable age. During the same thirty years, the proportion of total estimated expenditure under the National Insurance program represented by retirement pensions will increase from 53 per cent to 67 per cent. Increased costs of retirement pensions will account for the major portion of the estimated increase in total Exchequer contributions and grants to the Fund, from £118 million in 1948 to £416 million in 1978.

Administration

The Ministry of National Insurance is responsible for the administration of the National Insurance Act and for this purpose maintains regional and local offices. Contributions are made through stamps purchased at post-offices and benefits are paid through books of orders cashable also at post-offices. The Act makes provision for appeals against the decisions of insurance officers. A case may be taken to the local appeal tribunal, to the Commissioner of National Insurance, to the Minister and, finally, on a legal question, to the High Court.

NON-CONTRIBUTORY OLD AGE PENSIONS PROGRAM

Non-contributory old age pensions were introduced in 1908 and have continued in operation since that time. This scheme will be retained, as a transitional measure, for aged persons not eligible for retirement pensions but no new pensions will be granted after October 1, 1961. Under this program pensions are payable to persons 70 years of age and over, subject to qualifications of residence and citizenship, and on the basis of a means test.

In calculating the amount of pension, the total value of means from the following sources is included: income in cash, the yearly value of property owned and occupied, the value of free board or lodging, and the yearly value of investments or other property. The maximum pension under the non-contributory program is 26s. a week, the same as the basic retirement pension, with 16s. for a married woman living with her husband. Maximum annual pension for a single pensioner is £67/12/-; allowable income is £65/5/-; thus, the maximum annual allowable income, including pension, is £132/17/-. Allowable income for a married couple is proportionately higher.

In April, 1949, 445,000 persons were receiving non-contributory pensions. As of June 30, 1949, this represented about 14 per cent of the population 70 years of age and over. More than three-quarters of these beneficiaries were receiving maximum pension. The estimated total cost to the Exchequer for 1949-50 was £27·4 million. It is estimated that the cost will decrease as the insurance program matures and will drop to £1 million by 1978.

Administration of non-contributory old age pensions is under the National Assistance Board and the cost is met from general revenue.

THE NATIONAL ASSISTANCE PROGRAM

National Assistance, the major program supporting National Insurance, replaced a variety of earlier assistance schemes and was designed to provide basic maintenance for persons who fail to qualify for insurance benefits, and to supplement those benefits in special circumstances. National Assistance is available to all persons aged 16 and over, but two-thirds of the beneficiaries are persons of advanced years.

The keynote of the program is flexibility. Assistance is provided on the basis of a needs test and in urgent cases it may be granted without preliminary investigation. Assistance to needy persons is normally given through weekly grants of money but occasionally it is granted wholly or partly in kind.

The amount of assistance payable depends on the difference between the applicant's resources and his estimated needs calculated according to minimum standards of living. The resources considered include only those of the person or persons to be assisted. The major items taken into account are contributions towards household expenses, retirement or non-contributory pensions and earnings over 20s. weekly. The value of an owner-occupied house, death and maternity grants, specified war savings, certain other defined income, and the first £50 of capital are disregarded. Where the total value of capital is between £50 and £400, the amount of assistance is reduced by 6d. for each complete £25 after the first £50. In general, no assistance is granted to persons with free capital of more than £400.

There are two scales of assistance: one for all ordinary assistance payments, and one for special payments on a higher level for blind persons and persons suffering from tuberculosis of the respiratory system. An aged person may qualify under either scale of assistance. The weekly assistance rate for a married couple on the ordinary scale is 40s. and on the special scale 55s.; for a single householder, it is 24s. and 39s.[1] Rates for other persons are lower, and those for dependents decrease in the lower age groups. Assistance rates may be increased where there are exceptional needs and single grants may be made to meet unusual needs which are unlikely to recur.

The assistance payment is increased by a rental allowance based on individual needs. According to a sample survey taken in 1948, the rental allowance covered the whole of net rent in 87 per cent of assistance cases. A combination of maximum benefit rates under the assistance program is more generous than retirement or non-contributory old age pensions.

Amounts of weekly assistance payments vary widely. The average weekly assistance payment for all recipients was 15s. 4d. in November, 1948. The average payment to those receiving assistance as a supplement to retirement or non-contributory old age pensions was 9s. 3d. weekly.

The number of persons receiving National Assistance in 1948 was over one million. Of these, 628,040 were men age 65 and over and women age 60 and over; 91·4 per cent were already receiving retirement pensions or non-contributory old age pensions. Twelve per cent of all persons receiving retirment pensions and 18 per cent of all persons receiving non-contributory pensions were also receiving National Assistance.

Finance

National Assistance is financed from general revenue. The estimated expenditure for 1949-50 on all forms of assistance, including non-contributory

[1] Rates have increased as of June, 1950.

old age pensions, was £87·4 million. No figures are available to show wha proportion of National Assistance expenditures is spent solely on the aged.

Administration

National Assistance is administered through the National Assistance Board which reports annually to Parliament through the Minister of National Insurance. Administration is decentralized through a series of local offices established through the country. Applications and payments are made through post offices.

National Assistance appeal tribunals are established in each district. Any decision of the Board is subject to appeal, but decisions of the tribunals are final.

FRANCE

Structure and Development

Since 1945 a comprehensive national social security program has been developed in France.

Old age pensions are payable under a general scheme for employed persons and under a number of separate schemes, organized on an occupational basis, for self-employed persons and for certain categories of the employed such as agricultural workers. Pensions are payable on retirement at age 60 or over, in the case of the employed, and 65 and over in the case of the self-employed. There is no means test.

The amount of pension varies within fixed maximum and minimum limits and is based on average earnings over the last ten years of employment and on the number of contributions made. The maximum pension for an employed person with 30 annual contributions at the age of 60 is 20 per cent of his average wage for the last 10 years. Where application for pension is deferred, the amount is increased by 4 per cent for each year until the age of 70, which the pension is 60 per cent of average wage.

Under a voluntary insurance program, pensions are payable to persons who leave covered employment. There are four contribution classes and pension rates are similar to those under the compulsory insurance program.

A transitional allowance on an assistance basis, approximately equal to the minimum pension, but varying according to place of residence and subject to a means test, is payable to formerly employed persons not qualified for the minimum pension by reason of insufficient contributions.

Similar allowances, subject to a means test, are also payable to residual groups in the aged population.

Pensions and allowances may be augmented by special supplements for a dependent spouse and for the number of children who have been raised. Benefits under the health insurance program are available to old age pensioners without contribution.

Finance

Social insurance in France is entirely contributory. For employed persons, a 16 per cent contribution on total wages and salaries, divided in the ratio of 10 per cent employer contribution to 6 per cent employee contribution, provides protection against the contingencies of old age as well as sickness, maternity, disablement and death. For self-employed persons, the rate of

contribution is approximately the same as for employees but may vary between different occupational groups. Costs of assistance and of administration are also paid out of contributions.

Administration

The administration of the French social security system is decentralized through a network of autonomous funds or offices. General policy is laid down by the National Ministry of Labour and Social Security.

Switzerland

Structure and Development

Switzerland adopted an old age and survivors insurance program in 1948. At present there are two types of old age pension under this program.

(*a*) Under the basic program pensions are paid to insured persons who have reached the age of 65. There is no means test and retirement is not compulsory. Widows and orphans of insured persons receive survivors' benefits. In 1948, 42·8 per cent of the eligible age group were receiving pensions under this program.

Coverage includes all residents of Switzerland and certain Swiss citizens abroad who have made at least one annual contribution. The amount of pension varies within fixed maximum and minimum limits and is based on average income and number of contributions. The pension is increased when the pensioner's wife reaches the age of 60.

(*b*) Under a transitional pension scheme Swiss citizens aged 65 and over who have not made a contribution to the insurance program may receive a flat rate pension subject to a means test at rates determined by place of residence.

Finance

The insurance program is contributory. On all wages and salaries the contribution rate is 4 per cent. Employers and employees pay 2 per cent each; self-employed persons pay 4 per cent. On unearned income the contribution rate is graded. Contributions are made to, and benefits paid by, a national system of funds, with over-all control and co-ordination exercised by the federal Equalization Fund, The funds are subsidized by grants from the federal and cantonal governments; the federal share is raised by a special tax on liquor and tobacco. Interest from the federal Fund constitutes an additional source of revenue.

Administration

Under general supervision by the Federal Council, administration of the insurance program is carried out by the funds, organized on three levels of equalization: the federal Equalization Fund, occupational and cantonal funds, and employer funds. Private insurance organizations may be licensed to administer the pensions with respect to their beneficiaries.

2. COMPARATIVE ANALYSIS OF LEGISLATION

The Committee reviewed, on a compartive basis, the main features of the old age security legislation in the following countries: Canada, Australia, New Zealand, Denmark, Sweden, the United States and Great Britain.

During the twentieth century the hazards of old age have come increasingly to the fore in modern industrial countries and there has been a steady and considerable growth in the number and scope of government-sponsored old age security schemes. The financial burden of an adequate income maintenance program for the aged is inevitably a heavy one in any country; it is particularly heavy in relation to the cost of other social welfare programs. Moreover, costs are rising because the aged population is increasing; the problem has been accentuated in recent years by a general rise in price levels.

The historical development of old age security programs in these countries shows certain definite trends. Beginning with Denmark in 1891, all the countries except Sweden established non-contributory old age pension programs subject to a means test as the first approach to the problem of income security for the aged. With this type of program as a foundation, there have been three separate lines of development: on the benefit side, there is a trend away from the means test towards either a universal flat rate benefit or an insurance program; and on the revenue side, there is a trend away from the non-contributory program and towards the use of specially earmarked taxes. None of these countries, however, has entirely eliminated the payment of old age assistance under means test, and at the present time only one, Australia, has entirely eliminated the use of general revenue in the financing of the old age security program.[1] A third trend is towards extension of coverage. The statistics for each country indicate that the number of persons receiving old age benefits is increasing both absolutely and relatively. This increase is due in part to the ageing of populations; in part, however, it is due to the addition of new programs providing either universal or comprehensive benefits within a certain age group, and in part to the liberalizing of eligibility qualifications such as age, residence and allowable income under means test assistance programs.

Although these three trends are clearly distinguishable, there is no uniformity in the types of old age security programs in operation at present.

Canada and Denmark retain the original non-contributory means test program. Australia also retains the means test benefit but introduced earmarked taxes for social security purposes in 1941, and since 1946 has collected all revenue for its old age security program by this means. New Zealand adopted a non-contributory means test program in 1898, combined it with a limited non-means test program in 1938 as part of a general social security system financed in part by an earmarked social security contribution.

The United States developed means test assistance programs in some states over a period of years. In 1935, in addition to a nationally organized assistance scheme, a non-means test program limited in coverage was introduced, financed entirely by earmarked contributions. In Great Britain non-contributory means test pensions were first introduced in 1908; a non-means test program with earmarked contributions and limited coverage was adopted in 1925 and a revised and extended national social security program, including retirement and assistance schemes, was introduced between 1945 and 1949.

Sweden is the only country which did not follow this general course of development: a universal non-means test program with earmarked contributions was adopted in 1913 and has been maintained, with substantial means test supplementation, up to the present time.

The old age security program in any country is influenced by the prevailing social outlook, the existence of other social security programs, and by other services for the aged, such as housing and medical care. Also, it

[1] General revenues may be used in the future if necesary.

tends to reflect the economic capacity of the country and the pressure of other responsibilities on the available financial resources.

In appraising the existings programs of different countries, it is impossible to make accurate comparisons of such features as the amount of benefit and the details of means testing, because there is no adequate basis for comparing purchasing power parity. Foreign exchange rates are often established arbitrarily, and are influenced by political and economic factors other than internal price levels. Cost of living indices are not an accurate measure of comparison, because the basket of goods and services on which they are based contains different items in different countries, and the index is weighted differently according to the relative importance of the items chosen. The base period used in one index may be different from the base period used in another. In any case, a cost of living index in general use throughout a country may not reflect accurately the patterns of living of a particular group such as the aged. Instead of a cost of living index, the average wage may be used as a measure of comparison, but there will be variations within the calculation of such a wage, and the usefulness of the resulting figure in comparing benefit values will depend to a great extent on the relative degree of industrialization in the countries concerned. A true comparison of purchasing power parity in different countries would require information which is not available at the present time.

While there are serious difficulties in comparing the old age security programs of different countries, there are, nevertheless, certain common features which may usefully be examined.

Universality of Benefit

In Sweden and in New Zealand a universal benefit is paid as of right to all persons who have reached a certain age. The benefit is subject in Sweden to qualifications of citizenship, and in New Zealand to qualifications of residence. The amount is not at present an adequate subsistence minimum, particularly in New Zealand; in both countries it must be supplemented by assistance on a means test basis, although the amount of basic benefit in New Zealand will increase annually as the scheme matures. The emphasis in New Zealand is not on the actual amount of benefit but on the fact that it is payable as a universal right.

In Great Britain and the United States, income maintenance for the aged is not provided as a universal right, but is made available through a national compulsory insurance program. The insured person establishes a contractual right to benefits at retirement by making contributions during his working life, although neither of these programs is a completely orthodox deferred equity insurance scheme. Great Britain, under its insurance program, has achieved comprehensive coverage in terms of contributions, but at present only 63·5 per cent of persons in the eligible age group are receiving retirement benefits; this proportion will increase as the scheme matures. The United States, under its insurance program, has achieved only limited coverage; in terms of contributions, 56 per cent of the employed labour force are covered; in terms of benefits about 16 per cent of the population of eligible age are covered. Neither of these programs provides in itself adequate income security for all beneficiaries; in both cases benefits must be supplemented by assistance on a means test basis.

In Australia, Canada and Denmark, income maintenance for the aged is provided on the basis of need, as determined by a means test. The proportion of persons receiving means test assistance comprises 37·9 per cent of the age group 65 and over for men and 60 and over for women in Australia, and 48 per cent of the same age group in Denmark. The proportion in Canada represents 43·9 per cent of the age group 70 and over.

In the countries which provide universal or insurance benefits, Sweden, New Zealand, Great Britain, and the United States, these benefits are insufficient for substantial numbers of the covered population and must be supplemented by assistance on either a means test or needs test basis. Sweden provides special supplements for dependents and for housing.[1] In Great Britain a non-contributory means test old age pensions program is maintained as a transitional measure for certain persons who cannot qualify for insurance benefits. There is also a national assistance program on a needs test basis for all persons over the age of 16; the majority of recipients are aged persons. About 10 per cent of the aged population are receiving national assistance; this includes 12 per cent of those already receiving retirement pensions.

New Zealand and the United States each have two self-contained old age security programs. In both cases the non-means test program as originally established was limited in scope (New Zealand in size of benefit and the United States in extent of coverage) but was to mature over a period of years. The United States scheme, however, has not changed substantially from its original form, while due to increases in the ultimate rate of maximum benefit the New Zealand scheme is farther from maturity now than it was in 1940. In both cases the means test program was to be replaced as far as possible; at present, however, it continues in both countries to be the main income security program for the aged. Thus, in New Zealand, 49 per cent of the population of eligible age were receiving means test assistance in 1948, and this included 60 per cent of those entitled to superannuation benefits. In the United States, 24 per cent of the eligible age group are receiving means test assistance and this includes 10 per cent of the relatively small proportion of the population of pensionable age who are receiving insurance benefits.

Rate of Benefit

The universal benefit in Sweden and in New Zealand is payable at a flat rate, although in New Zealand the amount increases each year towards a maximum. In the United States insurance program, benefits are graded above a fixed minimum; the rate is determined by the wage record of the insured person. In the insurance program in Great Britain, benefits are payable at a flat rate which may be reduced if the contribution record is inadequate, and may be supplemented where retirement is deferred beyond pensionable age.

Where assistance is provided on the basis of need, there is usually a means test, with a flat maximum benefit amount which is subject to reduction. This procedure applies to assistance in Canada, Australia, Sweden and New Zealand. The means test maximum is supplemented in Denmark for deferred application, for age, for dependents and for special needs; in Canada it is supplemented by some provincial governments to meet increased costs of living.

In Great Britain and the United States a "needs" test is used instead of a means test; the amount of benefit depends on the difference between an applicant's resources and his subsistence needs. Some state assistance programs in the United States, however, have set a flat maximum benefit, while in Great Britain there is a graded maximum benefit, which is supplemented by an allowance for rent and may be increased to meet special needs.

Age and Retirement Qualifications

The universal benefit is payable at 65 in New Zealand and 67 in Sweden. The insurance benefit is payable at 65 in both the United States and Great Britain (60 for women in Great Britain).

[1] No figures are available for participation in such assistance.

Means test assistance is payable in New Zealand at 60, and in the United States at 65. In Australia and Denmark it is payable at 65 for men, and 60 for women. In Sweden it is payable at 67, and in Canada and Great Britain it is payable at 70.

It will be seen that only three countries, Australia, Denmark and Great Britain provide any age different for women (in Great Britain the differential applies only to the insurance program).

The insurance programs in both Great Britain and the United States encourage insured persons to remain in employment rather than to claim retirement benefits at the minimum age. In Great Britain there is a deferred retirement supplement, which increases steadily from 65 to 70, and there are retirement qualifications, which limit both hours of work and earnings for persons who claim the retirement pension during these five years. In the United States the insurance benefit increases automatically by a small amount for each year of covered employment, and there is also a restriction on earnings in covered employment of retired persons receiving the insurance benefit.

Where assistance is provided subject to a means test, either as the main income maintenance program or as a supplement to the basic program, the means test itself encourages deferred retirement, and may in many instances act as a retirement condition, since it limits the outside earnings of a pensioner. In Denmark, however, deferred application for a means test pension is further encouraged by means of special supplements.

Residence and Citizenship Qualifications

In Denmark and in Sweden old age benefits are payable only to citizens, but there is no residence requirement. In the other countries the residence qualification is more important. In Canada and New Zealand there is no citizenship qualification; residence in Canada is twenty years; in New Zealand it is ten years or twenty years depending on whether or not the applicant for pension was resident in New Zealand on March 15, 1938.

Under the insurance program in Great Britain compulsory insurance begins for new comers after twenty-six weeks' residence. Neither Great Britain nor the United States requires citizenship for its insurance program and there is no legal residence qualification for the receipt of benefits, but the contribution requirements establish an effective residence qualification of three years in Great Britain and of at least a year and a half in the United States.

Means test assistance in Australia, Great Britain, and the United States is subject to both residence and citizenship qualifications. In Australia the residence requirement is twenty years, and the applicant must be a British subject. In Great Britain residence is twelve years or twenty years depending on whether the applicant is a natural born British subject or a naturalized British subject of ten years' standing. Persons who have been naturalized for less than ten years are ineligible. In the United States the combination of residence and citizenship qualifications varies according to state law within certain general limits set by the federal government.

Revenue

Only Canada and Denmark finance their old age security programs entirely from general revenue. Australia derives all necessary revenue from earmarked social security taxes, as does the United States insurance program, but in both cases there is a commitment for appropriation from general revenue if necessary. In Sweden, Great Britain and New Zealand, a combination of earmarked contributions and general revenue is used to finance old age security programs.

The proportion formed by contributory revenue is high in New Zealand; in Great Britain it is high but will decrease to some extent in the years ahead; in Sweden it is low.

Where there is an earmarked social security tax on individuals, the form of the tax varies considerably. In New Zealand, it is a flat percentage on total income; in Sweden, a flat percentage on income tax assessment; and in Australia, a graded percentage on total income, with exclusions for persons with incomes below certain limits. Great Britain levies a flat rate contribution.

In addition to the security tax on individuals, some countries impose earmarked taxes on employers. New Zealand uses a flat rate percentage tax on net company income; Australia has a flat percentage on payroll with certain exclusions; Great Britain takes a flat contribution from employers in respect of each employee.

The United States insurance program is financed by equal contributions from employers and employees, levied as a percentage on that part of all wages and salaries under a fixed limit.

In most countries, contributions on wages and salaries are collected at the source together with and in the same manner as income tax. Similarly, in most countries, contributions on other income are collected through income tax machinery. This procedure is followed in Australia, New Zealand, Sweden and the United States. In Great Britain the traditional method of making insurance contributions through the purchase of stamps at post offices has been retained.

In programs which are financed from general revenue, there is no direct relationship between contributions and benefits. Of the countries which have introduced specially earmarked taxes, Australia, New Zealand and Sweden do not relate these taxes to benefits in any way. In the insurance program in Great Britain, benefits are related to contribution records, but the relationship is not a direct one. In the United States insurance program, detailed wage records must be kept for benefit purposes. It may be concluded that the principle of earmarking taxes for old age security programs does not necessarily involve the keeping of individual contribution records or a direct relationship between contributions and benefits.

Administration

The administration of universal flat rate benefits in Sweden and in New Zealand is on a national basis. Administration is relatively simple; eligibility is readily determined and payment of benefits is automatic. In both cases contributions are collected at the source through income tax machinery. There is no relationship between benefit and contribution, and there is no need to maintain individual contribution records.

On the other hand, the insurance programs in both the United States and Great Britain require more complex administration both in the calculation of benefits and in the accumulation of revenue. In the United States the rate of benefit is based on the wage record and quarterly wage records must be kept for every individual who at any time enters covered employment; further, a large reserve fund, now eleven billion dollars, in itself poses administrative and other problems.

In Great Britain, insurance contributions have been made traditionally through the purchase of stamps at post offices and the maintenance of individual insurance books. This method involves considerable difficulties in administration; in particular it forces employers to keep individual contribution records. The amount of benefit is related to the contribution record and benefits are paid through post offices.

Assistance programs necessarily raise serious administrative problems. Eligibility and amount of benefit are determined by a complicated procedure which inevitably involves a degree of subjective discretion at some level of administration. The means test can be standardized to some extent because there is a flat maximum benefit, but the needs test, as used in the United States assistance program, implies that there will be a different benefit calculation for each individual. In such a program there is, of course, no relationship between contribution and benefit; even where an earmarked contribution is used to finance the costs of the program no record need be kept.

It will be seen that from the benefit side, the universal flat rate pension is the easiest to administer. On the revenue side, where earmarked contributions are used they can be collected for this specific purpose through existing tax machinery so that the financial administration becomes an extension of the collection of general revenue. Only the insurance programs involve the keeping of individual records and the establishment of a procedure for determining in each individual case eligibility for and amount of benefit on the basis of previous contributions.

Pay-As-You-Go and Reserve Funds

Old age security programs in all the countries under review are financed essentially on a pay-as-you-go basis, with the exception of the United States insurance program, which maintains a modified actuarial reserve.

Canada and Denmark finance their means test programs entirely from current revenue. No fund is established and no reserve is maintained. New Zealand and Sweden use the mechanism of a fund to finance a number of programs, including old age security, but maintain only contingency reserves (enough to meet unforeseen contingencies for one year). New Zealand does not accumulate a reserve even though the cost of superannuation benefits increases each year as the benefit rises.

In Australia, the National Welfare Fund is used to finance several programs, including the means test age pension and unemployment benefits. The Fund maintains a reserve which at the present time is large enough to meet all its expenditures for one year. It appears that the reserve is held as a cushion against such contingencies as a fall in revenue from taxation and a rise in unemployment benefits in case of fluctuations in the level of employment. There is no evidence to indicate that a large reserve is being built up in order to meet future increased expenditure on age pensions. Moreover, the government which set up the National Welfare Fund indicated that it was prepared to underwrite the Fund if necessary.

In Great Britain a reserve fund was created from the assets of former social security programs now superseded. When the National Insurance Program was established, a certain amount of the accumulated capital was transferred from this reserve fund to the National Insurance Fund, which is a current account used for several social security programs. The interest from the reserve fund is paid annually into the National Insurance Fund, and there is provision for further transfers of capital when necessary, through resolution of the House of Commons; but since the initial transfer the program has been financed entirely from current revenue on a pay-as-you-go basis.

The United States insurance program was originally established on the basis of a full actuarial reserve. There has been opposition to the accumulation of large reserves and the requirement of an actuarial reserve was deleted from the Social Security Act by the 1939 amendment. It was hoped that the program would be financially self-sufficient but, in 1943, provision was made for an

appropriation from general revenue when necessary, because the fund was operating at an actuarial deficit. There is still opposition to the reserve principle, as illustrated by the Curtis minority report on H.R. 6000, the bill which would revise and extend the insurance program. However, the majority in both House and Senate Committees examining H.R. 6000 continue to adhere to the modified reserve principle,[1] and the bill would remove the provision for appropriation from general revenue, thus committing the insurance program to permanent financial self-sufficiency.

From the evidence of the countries studied it appears that there is a growing tendency to finance old age security programs on a pay-as-you-go basis. The payment of social security benefits in any given year is essentially a transfer of goods and services produced by the country in that year to a special group within the population, in this case the aged. Thus the real burden of maintaining the aged in terms of goods and services must be met out of current production each year, and it has been argued that the pay-as-you-go approach is a realistic method of financing an old age security program.

[1] It is of interest to note, however, in this connection that in June 1950, the United States Senate, in giving its approval to the report of the Senate Finance Committee on H.R. 6000, also gave unanimous approval to a vote of $25,000 for a two-year study of the possibilities of universal coverage and of pay-as-you-go financing of the old age insurance program.

CHAPTER III

REPRESENTATIONS FROM THE PROVINCES

In response to a request to the provincial Ministers of Welfare to furnish information which might be helpful to the Committee, replies were received from seven Ministers; no comments were received from those of New Brunswick, Prince Edward Island or Quebec. The Welfare Ministers of Newfoundland, Ontario, Saskatchewan and Alberta forwarded briefs dealing with problems arising from the administration of the program and making certain recommendations. In the case of Newfoundland, difficulties which have arisen in the administration of the means test and in equating provincial aid to other dependent groups with the federally supported pensions to the aged were discussed. The communication from the Ontario Minister noted certain difficulties encountered in administering residence qualifications and the means test, indicated the government's support of a universal pension payable at 70, and expressed the view that a contributory scheme without a means test might be possible. The Saskatchewan and Alberta Ministers mentioned different administrative difficulties which have arisen in those provinces. The Manitoba and British Columbia Ministers forwarded copies of resolutions passed by the provincial Assemblies calling for early consideration of the 1945 Dominion Proposals, and, with the Minister of Public Welfare for Nova Scotia, expressed a desire to co-operate with the Committee and to supply such information as might be requested. A communication was also received from the Council of the Yukon Territory requesting an increase in allowable income from $120 to $360 per annum, in addition to pension. The more extensive of these briefs are summarized below.

Newfoundland

The Minister of Public Welfare pointed out that prior to Confederation, pensions were paid to persons aged 75 years and over at the rate of $6 a month to a single pensioner and $10 a month to a married pensioner. The widow of a pensioner could qualify for pension only if aged 65 or over at the time of the pensioner's death. At the time of Confederation with Canada, new legislation was enacted, and an agreement between Newfoundland and the federal government to pay a $30 monthly pension became effective April 1, 1949; the existing agreement, which raised the pension to $40, came into force April 1, 1950. During the first year of the federal-provincial program, 11,283 persons, or 88·4 per cent of an estimated 13,400 in the province aged 70 and over, qualified for either full or partial pension. The average pension paid was $29.57. Newfoundland does not provide a supplementary allowance, but a provincial pension of $25 per month is paid to certain persons aged 70 and over who do not meet federal requirements, particularly with regard to proof of age.

The Minister also made a number of personal comments on problems connected with the existing program. Difficulty is encountered in determining the extent of income, especially in occupations such as fishing, where income fluctuates from year to year. Strict enforcement of the means test tends to encourage devices which cannot be regarded as wholly honest. The allowable

income ceiling is felt to be too low and certain pensioners already receiving a very modest industrial or government pension can qualify for old age pension only in an amount insufficient to meet their needs. An equitable evaluation of property is particularly difficult in Newfoundland because reliable standards of evaluation are lacking in many areas. Certain difficulties attending increase in pension rates since Confederation are also noted. Because of increases in the amount of old age pension the province has found it necessary, if a balanced welfare system is to be maintained, to effect increases in payments to other dependent groups. In addition, a monthly allowance of $40 represents a considerable sum in an outport of Newfoundland and the $80 received by married pensioners is out of line with average normal earnings. The possibility of a flexible scheme was suggested, under which the needs of all dependent groups could be considered, and federal aid could be applied in a manner best suited to over-all welfare requirements of the province.

Ontario

The Minister of Public Welfare for Ontario stated in his reply that the government of his province favours a universal pension payable to persons 70 years of age and over. It believes contributory old age security without a means test might be possible although it would take time to implement such a plan. In the interim the existing scheme might be improved in a number of ways.

In a memorandum accompanying the Minister's letter, it was pointed out that existing residence requirements tend to disqualify applicants who are unable to provide acceptable evidence of extended residence in Canada. A lesser period of continuous residence would suffice, and yet provide adequate safeguard against abuse.

In addition, it was claimed, that income limits discourage attempts to attain higher standards of living. The aged person who could obtain part-time or seasonal employment is so restricted in the amount he can earn while retaining pension that he finds it impracticable to accept work. If a maximum income limit is to be incorporated in any pension scheme it should provide for an outside income, in addition to pension, at least equivalent to the amount provided for in the Act prior to the last amendment.

It was suggested that Section 9(1) of the Old Age Pensions Act, which forbids transfer of real or personal property for the purpose of qualifying for a higher pension, is used so little that it should be excluded. The view was expressed that application of this section causes long administrative delay while the pension authority obtains evidence to indicate whether the applicant has transferred his property in order to qualify for pension.

Finally the memorandum stated that Section 9(2) of the Old Age Pensions Act, which relates to recoveries from estates of deceased pensioners, deters many persons from applying for pension but actual recoveries represent less than one per cent of total expenditure and do not warrant the retention of the section.

Saskatchewan

The Minister of Social Welfare and Rehabilitation for Saskatchewan submitted a memorandum with respect to the Department's experience in the administration of old age pensions. It was pointed out that in an agricultural province the application of the means test requires a large field and office staff to determine eligibility from year to year. Extensive knowledge is required of changing prices for livestock and grains, production costs, land values, and

many other complicated facts; and difficult administrative problems are created by requirements of proof of age, transfers of real and personal property, assessment of the value of shelter, recoveries from estates, and interprovincial chargebacks. Other special problems with respect to the determination of income are caused by payments under the Prairie Farm Assistance Act, deferred payments to grain growers by the Canadian Wheat Board, mortgage payments and so on. Cancellations and adjustments in calculation of income cause very considerable hardship as over-payments must be recovered, regardless of the pensioner's ability to live on a reduced amount during the process of recovery. The present maximum award of $40 a month does not meet living requirements in the province.

Alberta

The Deputy Minister of Public Welfare for Alberta raised the problem of old age pensioners maintained in homes and institutions, as an example of the type of question which might receive consideration. In Alberta the approximate average maintenance cost in institutions is $95 monthly, which includes $5 per month allowance to the pensioner. Of the total cost, the federal share is $30, the provincial $42.50, and the municipal $22.50. In addition, Alberta provides hospitalization and treatment services to all old age pensioners and their dependents.

CHAPTER IV

BRIEFS AND TESTIMONY OF ORGANIZATIONS

The Committee studied briefs on old age security presented by a number of organizations, and heard testimony from representatives of eight of the larger organizations. Briefs and testimony are summarized in this Chapter, which includes evidence from l'Union Catholique des Cultivateurs; the Canadian Congress of Labour, the Trades and Labour Congress of Canada and la Confédération des Travailleurs Catholiques du Canada; the Canadian Chamber of Commerce, the Canadian Manufacturers' Association and the Canadian Life Insurance Officers Association; and the Canadian Association of Social Workers and Canadian Welfare Council. In Section 1 the principal features of briefs and testimony are presented; in Section 2 a comparative analysis is given.

1. SUMMARY OF BRIEFS AND TESTIMONY

Agricultural Organizations

L'Union Catholique Des Cultivateurs

L'Union Catholique des Cultivateurs recommended that the age of eligibility for pension be lowered from 70 to 65, that the means test regulations be broadened and that amount of pension be adjustable to meet variations in living costs. The witness for l'Union, in giving testimony, stated that first priority should be given to lowering of the age limit and second to broadening of the means test.

In considering a supplementary measure to the basic means test pension l'Union stressed the difficulty, in so far as the agricultural population is concerned, of establishing a universal compulsory program and suggested, as an alternative, that a voluntary contributory program might be developed through utilization of Canadian government annuities. To encourage participation in the voluntary scheme, the organization suggested that the government might consider subsidizing the cost of annuities.

Basic Universal Pension

Amount of Pension. L'Union approved the upward adjustment of pension rates which has taken place since 1927 and endorsed the principle of adjusting pension in accordance with cost of living levels. It considered the existing $40 pension to be fair at the present time, subject to adjustment of age and means qualifications as recommended.

Age Requirement. The organization pointed out that many persons aged from 65 to 70 are unable, under modern intensive mechanized methods, to carry on farming operations. In addition, in the case of many older persons engaged in agriculture today, intensified activity during the war years and the introduction of new and unfamiliar machinery have hastened the advent of old age. L'Union accordingly recommended that the minimum pension age be lowered from 70 to 65 years.

Means Test. On the assumption that the means test would remain a condition of eligibility for pension, the organization proposed that regulations governing the test should be broadened to permit ownership of personal assets of a value up to $10,000, the income from which should not be taken into account when determining the amount of pension. While l'Union had not explored all the implications involved in abolition of the means test, and felt some doubt as to whether this would be possible from the point of view of costs, the witness stated that he would support its removal in the case of persons aged 70 and over, as the costs of universal pensions for this group would not greatly exceed those that would be incurred under the liberalized means test proposed by l'Union. However, in the opinion of the witness the test should be retained for pensions paid to the 65 to 69 age group.

Financing the Program. While no specific proposals were made in l'Union's brief concerning the financing of the basic pension, the witness stated that a possible method would be through sales or other indirect tax, together with a social security tax collected from all but the lower income groups.

Administration. L'Union recommended that the basic means test program should continue to be administered on the existing federal-provincial basis.

Contributory Insurance Program

While l'Union was not opposed to the contributory principle, it expressed the view that, if applied on a compulsory basis, certain difficulties would arise in the case of farm workers, because of difficulty in arriving at an exact assessment of income, the instability of farm income, and complications with regard to the verification of returns and the collection of contributions.

It recommended that, as a supplement to the basic minimum pension, provision be made through government annuities for persons who desire to purchase additional pension rights, and that the government should study the possibility of increasing its contribution to these annuities, so that the state could more effectively aid individual effort and assist persons unable to provide for old age through private annuities.

Labour Organizations

The Canadian Congress of Labour

The recommendations of the Canadian Congress of Labour concerning old age security were prepared by the Executive Council of the Congress. They constitute part of the over-all social security policy of the organization, which calls for establishment of a comprehensive program covering old age pensions, health services, and sickness, disability and other benefits. The Congress, in previous representations to the federal government for the implementing of this program, had laid special stress on the necessity of adequate provision for the aged and its brief emphasized both the necessity of state welfare measures, as an inevitable concomitant of industrialization and urbanization, and the difficulties that face the worker today in providing for his old age.

The existing Old Age Pensions Act was criticized on three major points; the means test, the age requirement and the amount of pension. In answer to a question on priorities, the witness testifying for the Congress stated that, if these three criticisms could be met only in order of relative urgency, he would

assign first priority to abolition of the means test, second to lowering of the age qualification and third to increase in the amount of pension. Variations in the application of the Act, as between provinces, were also criticized.

The Congress recommended the establishment of a universal basic federal pension of $50 a month as of right, payable at age 65 and increased annually by a cumulative national productivity bonus of two per cent. To supplement the basic pension it recommended a contributory insurance pension with graduated contributions and benefits, and, in addition, a means test assistance program for persons unable to qualify for pension, or for sufficient pension to meet their needs. In addition, certain basic amendments to the Government Annuities Act were proposed. The brief was divided into two parts, the first dealing with government pensions, the second with employee pension plans.

Basic Universal Pension

Amount of Pension. The existing $40 monthly pension was criticized as insufficient to maintain life in comfort and decency, and as quite unjustifiable at a time when the national income is nearly $13 billion.

The Congress contended that the proposed pension of $50 represents a moderate amount and should be paid universally, at a flat rate. Variations in living costs between different areas could be offset to a large extent by a suitable housing program. The organization stated that right to pension should not be contingent upon retirement.

To obviate the possibility of the pension remaining fixed in amount while economic conditions changed, the Congress suggested a two per cent cumulative annual increase in pension. This recommendation was based on the assumption that national productivity increases continuously at a rate averaging about two per cent annually over a long span of time. The organization argued that the increase would have the further important effect of enabling pensioner purchasing power to keep pace with the volume of goods and services being made available. The use of a sliding cost of living bonus was rejected by the Congress because of its tendency to freeze the amount of pension, and to tie the beneficiary to a standard of living which may no longer exist, and because it represents only an average based on a rigid pattern of consumption.

Age Requirement. The Congress expressed the view that the age requirement of 70 or over is onerous by any standard, and recommended that pension be payable at age 65. It cited illustrative statements from the Bank of Nova Scotia *Monthly Review,* February 1950, and the *Labour Gazette,* November 1949, concerning employment difficulties faced by older workers today; a statement made by Louis I. Dublin, Vice-President, the Metropolitan Life Association, that in the United States close to 40 per cent of older persons suffer economic hardship due to present high living costs; an estimate of the Annuities Branch, Department of Labour, that 45 out of every 100 average Canadians who start to work at age 25 are dependent at age 65; and the fact that 73·3 per cent of Canadian old age pensioners are receiving the maximum assistance available under the Act. These examples were supported by comparison with other countries, where pension generally commences at age 65 for men, and in many cases at age 60 for women. In terms of employment opportunity and the degree of indigence or near indigence among the aged, 70 was thus considered by the Congress to be too high an age for commencement of pension.

Means Test. The Congress recommended that the means test be abolished. The test was criticized on a number of points: that is discourages thrift and encourages dishonesty; that it places an undesirable stigma of indigence on persons receiving pension and subjects recipients to a scrutiny which is demean-

ing, intrusive and damaging to self respect; and that it causes wide variation between provinces in assessing the value of board and shelter, property and other income factors, so that pensioners in identical circumstances but in different provinces may receive substantially different amounts of pension. The Congress pointed out that, in effect, there are eleven different pension jurisdictions where there should be one, as with unemployment insurance.

Financing the Program. The Congress stated that the total cost of paying a $50 monthly pension to all persons age 65 or over, irrespective of means, would be about $660,840,000 in 1951. It believed that this would be offset in part by about $110 million federal and provincial expenditure under the existing program, by an additional amount that could be realized through elimination of the special $500 tax exemption now allowed to persons over 65, and by the amount that would be recovered from pensioners through income tax. It estimated that the net additional cost of the recommended program would therefore be about $500 million, or less than 4 per cent of the $13,000 million national income. It also expressed the view that any future increases in the proportion of pensioners to population would be more than offset by increases in the national income.

The Congress suggested the following methods for the financing of the program, though it did not specifically recommend any one method, or combination of methods. Restoration of corporation income tax to wartime levels would bring in well over $300 million. Graduated increases in personal income tax rates, averaging 25 per cent, would collect over $125 million. In addition, the Congress stated that it would not oppose a lowering of exemption levels for the specific purpose of financing old age pensions. The witness expressed his belief that the great majority of members of unions affiliated to the Congress would be prepared to meet these costs, in part through lowering of income tax exemption or, as part of a comprehensive social security program, through introduction of a social security tax extending downward to low incomes.

Administration. The Congress recommended that the program be administered by the federal government.

Contributory Insurance Program

Assuming the establishment of a universal $50 basic pension as of right, the Congress considered that the next logical step should be the establishment of a supplementary scheme of contributory pensions, as universal as possible in application, under which both contributions and benefits would be graduated on the basis of income. The witness for the Congress favoured an actuarially sound reserve fund rather than a pay-as-you-go program. The Congress rejected the flat sum benefit for this program as it would tend to be tied to the lowest incomes and as better paid groups would face an unduly drastic cut in living standards. The scheme would be supported on a tripartite, government-employer-employee, contribution basis and the Congress accepted the fact that costs of administration would be relatively heavy. The witness suggested that the total amount which would be payable under the combined basic and contributory pensions might equal the $100 pension which the Congress has been endeavouring to obtain through employee pension plans.

Assistance Program

To meet the needs of contributors who would be too old to build up adequate pension rights through the contributory plan, or for whom the basic pension plus entitlement under the contributory program would be insufficient, the Congress recommended the payment of assistance on a means test basis. The use of a means test was justified by the organization in this instance as minimum

needs would already have been covered. The Congress contemplated that, over a period of years, assistance costs would become stabilized at a relatively low figure.

Employee Pensions

The Congress stated that with its affiliated unions it is now pressing for employee pension plans for two reasons: the absence of any government program considered to be adequate, and the belief that the employer has an obligation toward the employee beyond the payment of wages. Assuming the establishment of an old age security program, as recommended, it considered employee pensions as largely limited to providing a useful supplement for long-term employees.

Two considerations governed Congress policy in regard to employee schemes. First, it argued that pensions should be non-contributory in character, because employer contributions may be regarded as deferred wage payments liable to be terminated through bankruptcy or weakened through lack of funds, and because company schemes are invariably qualified by considerations such as eligibility and past service which tend to limit both the pension rights and the freedom of the employee. Secondly, it contended that administration should be shared equally by management and by employees through their union. Since employees are bound by the terms of the pension scheme, and because the scheme, as a form of wage, becomes a condition of employment, the Congress suggested that the employee pension properly falls within the area of collective bargaining. Congress policy calls for administration by Boards of Trustees composed of equal numbers of union and management representatives, under an impartial chairman.

The Congress would be prepared to recommend that the Annuities Branch of the Department of Labour be used as the vehicle for the administration of employee pensions were it not for certain features of the Government Annuities Act which are considered to be unduly restrictive in relation to Congress policy. These are: the employer alone and not a Board of Trustees may enter into a contract for his employees; the maximum pension of $1,200 a year payable under the Act makes it necessary to enter into supplementary contracts with other agencies; if separation takes place before retirement, no cash rebate is possible since the employee must accept a paid up annuity for his vested right, and his element of choice is thus restricted; and the Act and its regulations are unnecessarily restrictive and rigid, e.g., supplementary disability pensions may not be included in a contract.

The Congress recommended that the Government Annuities Act be amended to meet these problems and that it preferably be administered by a crown company so that the required flexibility could be obtained.

The Trades and Labour Congress of Canada

The brief of the Trades and Labour Congress of Canada, was prepared by the Executive Council of the Congress on the basis of decisions or resolutions adopted at national conventions.

In its introduction the Congress expressed the hope that comprehensive social security legislation would be adopted during the present session, and summarized a memorandum, presented to the government on March 9th, 1950, urging the enactment of an all embracing Social Security Act to provide, on a universal contributory basis, for a comprehensive health insurance program; for non-means test, federally administered $60 old age and blind pensions,

payable at age 65 for men and age 60 for women; for mothers and widows allowances administered on a national basis; and for unemployment insurance to be integrated into the proposed comprehensive social security program.

The history of old age income security plans and other social security measures in Canada was traced and the growth of private pension plans noted. While not officially opposed to employee pension plans, the Congress is opposed to their acceptance as a basic old age security measure and, for a number of reasons, is concerned about their growth. The Congress contended that while employee plans have provided some protection to those able to benefit from them, they have also created great difficulties. They tend to immobilize the labour force and to reduce the economic freedom of the individual; their financial soundness depends on the hiring of young people and, where an employee plan is in effect, hiring policy must be geared to it; persons engaged in seasonal occupations cannot benefit; marginal undertakings cannot support the cost. The Congress stated that a universal pension to provide comfort and security is necessary if employment is to be based on skill and ability and not to be influenced by the ease with which a person can be fitted into a pension scheme.

The Congress recommendations were divided into these concerning old age pensions, and those concerning other supplementary services for the aged. Recommendations concerning services for the blind and disabled were also made.

Old Age Pensions

Amount of and Qualifying Conditions for Pension. The Congress recommended a universal old age pension, to be paid irrespective of means or whether retirement has taken place, at the rate of $60 per month to persons aged 65 and over. Fifteen years' residence in Canada was the only qualifying condition recommended by the organization. The pension was set at $60 because the Congress felt that this is the minimum amount required to keep a person aged 65 or over in a state of health and decency, and because the rate should be high enough to preclude the need for employee plans. The proposed amount was not regarded by the Congress as excessive at a time when average labour income is $108 a month. The organization suggested that the amount of pension could be increased or decreased if it were reliably established that living costs had risen or fallen.

Financing the Program. The comprehensive social security scheme recommended by the Congress, would be financed on a pay-as-you-go contributory basis, with the cost of old age pensions being met by an assessment on personal income. The Congress on a number of occasions has endorsed the contributory principle and condemned financing by indirect taxation.

Costs of the recommended old age pensions program were estimated at $720 million annually, on the basis of an estimated 1,006,000 persons aged 65 or over in Canada in 1949. If personal income in Canada is $12,495,000, as estimated for 1949, then allowing for certain non-taxable income, estimated to be about $2,500 million, net taxable income for purposes of old age pensions would be $10,000 million. The Congress suggested that a six per cent or possibly slightly higher social security contribution levied on this amount would provide an annual revenue of $600 million. The difference between this sum and the estimated cost of $720 million is equal to the combined federal and provincial expenditure of $120 million under the existing old age pension program. The Congress pointed out that if this latter amount were to be raised entirely by the federal government from general taxation it would provide for participation in the program by those whose incomes were too small to be affected by a general social security contribution.

Because pension payments would be relatively rigid as compared to the amount of contributions, which would fluctuate in accordance with economic conditions, the Congress suggested that a reserve fund might be built up by setting aside in each year a small sum, equal to one or two per cent of total pension payments, and that the fund and its administration be reviewed and adjusted by Parliament every ten years.

Administration. The Congress recommended that the basic old age pension program be administered and financed entirely by the federal government, though the provinces might still pay supplements.

Other Services for the Aged

Medical and Hospital Services. The Congress proposed that pending and after the establishment of a national health service, old age and blind pensioners and their dependents should be provided with complete free medical and hospital care, including care for mental illness.

Housing. The Congress submitted that consideration should be given to provision, on a low rental basis, of special living quarters for the aged, where they would live in proximity to their families, with special accommodation for married couples.

Recommendations Concerning Blind and Other Disabled Persons

The Congress proposed that pensions to the blind should be paid at age 18 instead of 21. It considered that any increase in old age pensions should be applied to pensions to the blind, and that pensions should be extended, on the same conditions, to other disabled persons.

La Confédération des Travailleurs Catholiques du Canada

The recommendations of la Confédération were based on resolutions adopted at the last annual congress and emphasized labour's interest in and desire for increased social security measures. Due to the absence of its officers on official business, la Confédération was unable to send representatives to testify on its brief before the Committee. The organization was interested primarily in union-negotiated employee pension plans, and in ensuring that the worker, through his union, is enabled to participate in the administration of the plan. La Confédération expressed the belief that an important concern of the state should be to ensure that negotiation of employee pension plans is accepted as an integral part of collective bargaining. Since such employee pensions could never cover all real needs, it would be necessary that the state meet the remaining needs. Thus, state old age pensions were regarded as a measure complementary to employee pension plans.

Employee Pensions

La Confédération expressed the view that the social security structure should be built around the union-negotiated employee pension plan. It stressed the important role that should be played by the workers' professional association in negotiating employee plans, and the necessity of providing that the worker might, through his union, participate in their administration. The organization proposed that the state should ensure that the negotiation of pension plans is included as an integral part of collective bargaining, and that, where such plans exist and provide advantages not less than those offered by state plans, the worker is compelled to participate before he can apply for any government

pension. La Confédération added that if any contributory state plan is adopted the worker should not be obliged to contribute if already contributing to an employee pension plan which provides comparable benefits.

Basic Universal Pension

Amount of and Qualifying Condition for Pension. As employee pension plans could not however, cover all employed persons or all industries, a universal state pension was felt by la Confédération to be necessary as a complementary measure. The organization proposed that the state plan should provide a minimum pension which, taking present living costs into consideration, should be at least $50 a month. La Confédération considered that it should be paid at the age of 65 for men and 60 for women but should not be contingent upon retirement. The organization argued that the means test, which it considered to be humiliating and to give the impression that a worker must accept charity after a lifetime of work, should be abolished.

Financing the Program. Although la Confédération expressed the belief that if priority were given as suggested to employee pension plans, the costs of the state program would decrease progressively as coverage under employee pension plans developed, it estimated that the cost of the recommended state program would amount to approximately $1 billion in about ten years' time. La Confédération expressed the view, however, that a country with Canada's wealth is capable of providing its population with this minimum social and economic security.

Administration. La Confédération expressed its belief that the existing joint federal-provincial administration has worked excellently and recommended its continuance. It would like, however, to see the membership of old age pension commissions broadened to include representatives of labour.

Business Organizations

The Canadian Chamber of Commerce

The recommendations of the Canadian Chamber of Commerce were prepared by the Executive Council which was unable to submit them for the approval of its members, because there was to be no annual meeting of the Chamber prior to termination of the Committee's hearings.

The Council recognized a growing public demand for increased measures of old age security and suggested that, if the Canadian people are willing to meet the cost, a universal basic pension of $30 a month be paid without means test to all Canadians aged 70 and over. The pension proposed by the Council should be administered by the federal government and financed from current revenue. No specific proposal was made as to how the amount required to finance the program should be raised, but it was suggested, in testimony, that both direct and indirect taxation should be employed.

While concerned about the present high taxation level, the Council stated that if there is a general desire for universal pension, ways and means for its implementation should be explored. However, because of the present budgetary position, increasing defence costs, the effect of foreign trade on domestic prosperity, and uncertainty as to the extent to which the Canadian people are able and willing to meet the costs of old age security, the Council suggested that

any plan adopted at this time should be of an exploratory nature, especially in view of the tendency of expenditures of this kind to increase over the years, and to become a fixed and rigid recurring cost.

Noting that security may be attained through individual savings, insurance or employee pension plans, and voluntary welfare and assistance services, as well as through state financed plans, the Council expressed the view that whatever program is adopted should be so designed as not to discourage thrift, personal incentive or the individual sense of responsibility to provide against those risks that can be met personally. The Council considered that any integration of the various industrial retirement schemes with the proposed universal pension program should be left to the choice of industry.

Universal Basic Pension

Amount of Pension. In proposing a $30 monthly pension the Council had in mind the spending of between one and two per cent of the national income. While it was admitted in testimony that a $30 pension was low, the Council expressed the belief that revenue to finance a higher pension could not be raised, taking into consideration the present budgetary position, rising defence costs, uncertain foreign trade conditions, and existing high levels of taxation. However, it emphasized that the amount proposed is tentative and exploratory, and could be reviewed after a period of administrative experience. No future decrease in the proposed $30 pension was contemplated by the Council.

The basic pension recommended by the Council was envisaged as a basic minimum, the payment of which by the federal government would not exclude the possibility of supplementation by provincial governments. Under the scheme proposed by the organization, some portion of the pension paid to those in the high income group would be recovered through taxation.

Age Requirement. The Council, in recommending a basic universal pension at age 70, had in mind that the cost of universal pensions below that age would mount alarmingly. In considering the ageing of the population and increased life expectancy, one witness particularly emphasized the older persons should remain in productive employment, even up to age 70 and beyond, and stressed the important responsibility of business and industry in this regard.

No recommendations were made concerning persons below 70 years of age, except that they should be given every encouragement to continue in productive activity. The problem of destitute and incapacitated persons in the age group 65 to 69 was recognized but, as was pointed out in testimony, the question of incapacitation was considered beyond the scope of recommendations with respect to old age. However, one witness suggested that incapacitated persons below 70, or even 65 years, might receive assistance on a means test basis, if funds were available.

Means Test. The Council recommended the abolition of the means test in order to encourage elderly persons to continue contributing to the productive capacity of the country. It considered the test to be discriminatory, to penalize the thrifty and to tempt persons to make false declarations of income in order to secure the maximum benefit. A precedent for the payment of benefits without test, it was pointed out, had been established under the Family Allowances Act.

Financing the Program. The program proposed by the Council would be financed out of current revenue, specifically raised and earmarked for the payment of pensions. The Council argued that payment of the proposed pension should be viewed as a redistribution of the national income, and should be financed on a contributory pay-as-you-go basis out of current revenue or

income, rather than through some type of funded reserve. The organization pointed out that any plan operated by the government under a funded arrangement, particularly where an individual's contributions are credited to his account, would be open to the danger of high administrative costs, and that a large fund might be uneconomically accumulated. No recommendation was made as to the specific tax measures by which the necessary revenues could be obtained but, since the Council expressed the belief that all Canadians should contribute out of current income, it was suggested, in testimony, that both direct and indirect taxes might have to be levied.

Administration. The Council proposed that the program be administered by the federal government.

The Canadian Manufacturers' Association

The recommendations of the Canadian Manufacturers' Association were based on the Association's previously expressed policy in social security matters; current thinking of the membership could not be ascertained until the next annual meeting of the Association.

Because of the problems raised by the ageing of the population, the Association considered that the question of old age income security would have to be dealt with on a long-range constructive basis. The Association expressed the view that the problem could best be met, as it had previously recommended, through the establishment of a national compulsory contributory insurance plan under which the amount of benefit is related to contributions and benefit is paid as a right upon retirement. The Association considered the establishment of such a program to be urgently necessary at this time, because of the growth of the existing means test program. It contended that the contributory approach would serve to keep costs within reasonable limits, would eliminate incentives to thriftlessness and fraud, and would stimulate self-reliance and independence. The program suggested by the organization would provide a coverage not possible under employee plans, on which it considered that no basic social security system could be built, and would allow more industries to set up employee pension schemes to supplement benefits paid under the basic national program. In addition, as universal coverage could not be obtained for some years, it would be necessary in the opinion of the Association to retain the present federal-provincial means test program, though it would decline in importance as the contributory program developed.

Contributory Insurance Program

The Association recommended the establishment of a national, compulsory, contributory insurance scheme, financed through employer-employee contributions, with only the cost of administration being met by the federal government. The Association emphasized that coverage of substantially all gainfully occupied individuals should be the ultimate goal, to prevent the mobility of workers between covered and non-covered employments from being impeded and to reduce administrative complications. The Association admitted that universal coverage might not be administratively feasible immediately, but said that the scheme should include at least those workers now covered under unemployment insurance, with every effort being made to extend coverage further; it considered that any scheme based on employer-employee contributions would be discriminatory to the extent that coverage is not complete.

The Association suggested that the self-employed might be allowed to enter the scheme voluntarily if administratively feasible; these persons, together with the vast majority of workers not covered under employee plans, are now discriminated against in their role as consumers and taxpayers.

Amount of Pension. The pension should be related to the worker's earnings in covered employment, as the Association considered that a flat rate uniform pension was not feasible when wage rates vary widely between different occupations and areas, as in Canada and the United States.

The Association did not suggest specific contribution or benefit rates. It recommended however that the contribution rate and benefit formula should be so constructed as to avoid payments in excess of a "reasonable maximum".

As part of the program proposed by the Association, pensions, calculated as a percentage of the pension entitlement of the deceased pensioner, would be paid to the surviving widow and children. The payment of an additional benefit to a retired pensioner, on behalf of his wife, was not specifically recommended by the Association; it was suggested in testimony, however, that this might be done.

The payment of a minimum pension as of right was recommended by the Association for those persons in covered employment who, at the beginning of the contributory program would be at, or beyond, retirement age, or so close to retirement that their contributions would provide only an insignificant amount of benefit. The amount of the "minimum pension" was not specified by the Association.

Age Requirement. The Association did not recommend a specific pensionable age other than that it should be over 65 but not over 70 years for both men and women. It was recognized by the organization that many industrial plans retire men at 65 and women at 60 years, and that the United States and Great Britain set the retirement age for men at 65 years. However, in proposing that the age limit be well over 65, the Association had in mind considerations of cost, increasing longevity, the ability of older persons to work longer than formerly, and the fact that the increased time now required to obtain an education diminishes the percentage of the population from whose production the steadily increasing costs of old age protection must be met.

Retirement Test. The Association stated that it would encourage retired pensioners to continue in occasional or part-time employment, but no contributions should be required from pensioners in respect of such employment, and their pension should not be reduced, unless earnings exceed a specified amount, which should be higher than allowable income under the present means test program. In discussing the administration of the necessary retirement test, various difficulties were foreseen, and the witness stated that this question would therefore receive further attention by the Association.

Contributions. The insurance scheme proposed by the Association would be entirely self-supporting, with equal contributions from employers and employees. No contribution should be made by the government except for costs of administration. The Association suggested that, if the self-employed were included, their contribution rate might well be set at one and one half times the regular employee rate, as is suggested under proposed amendments to the OASI program in the United States.

In the opinion of the Association contributions should be levied only on that part of earnings up to a specified amount, because, as pensions would be related to the amount of contributions, a limit on taxable earnings was considered necessary to place a reasonable maximum on the amount of pension.

The Association emphasized its belief that every effort should be made to facilitate and encourage those workers who are able to remain at work beyond the retirement age set by the program. Although it recommended that contributions continue to be payable until actual retirement, it felt that the amount of pension should increase where retirement is deferred, having regard

for shorter life expectancy following such retirement and for the additional contributions made during the period in employment after normal retirement age.

The Association proposed that contributions of both employees and employers should be allowable as deductions from taxable income, as with approved employee plans. As contributions to the program suggested by the Association would be exempt from taxation, it would follow that pension benefits should be considered as income for tax purposes.

Method of Financing. The Association considered that the insurance program should be financed on a modified pay-as-you-go basis. It argued that if the contribution rate was set initially at the level premium rate (i.e., the rate required from the outset to meet all future liabilities in perpetuity), a large reserve fund would accumulate in the early years and would stimulate unsound demands for increased pensions. On a straight pay-as-you-go basis, the Association considered that the contributions required would be very much smaller in the earlier years of the program, but would have to be set, in the later years, at a rate higher than the level premium rate. The Association, as a compromise measure, suggested a policy between a full actuarial reserve and a straight pay-as-you-go method. The contribution rate would be set a little higher than immediately required to pay pensions, thus building up a contingency reserve. As pension payments increased, the Association suggested that the rates of contribution could be adjusted upward, but at a less rapid rate than would be required under a straight pay-as-you-go method. The present method of financing the United States OASI program was suggested by the Association as an example for Canada.

Administration. Under the program proposed by this organization the difficulties of collecting contributions, and of paying benefits graded according to contributions, would pose the same type of administrative problems as under unemployment insurance, and in testimony it was explained that the Association had in mind the possible integration of the recommended program with the unemployment insurance program.

Means Test Pension

The Association, recognizing that universal coverage would probably not be reached for some years, further recommended the retention of a means test program, either as at present or in an amended form, to meet the assistance needs of dependent persons age 70 or over who could not qualify for pension under the contributory program, or who required aid beyond that provided by the minimum pension. The Association considered that the means test program should continue to be a federal-provincial responsibility but should decline in size and cost as the insurance program developed.

The Canadian Life Insurance Officers Association

The recommendations of the Canadian Life Insurance Officers Association were made on behalf of, and endorsed by, the companies affiliated with the Association.

While the Association expressed the belief that individuals should be encouraged to provide for their own security, it was recognized that some cannot or will not save and must be supported when they can no longer work. The Association considered that these persons represent the basic problem to be solved by a federal old age security program and will be the prime beneficiaries of any old age pension plan adopted.

The Association had considered the present means test old age pension scheme as against possible alternatives. It contended that while the means

test has the advantage of keeping costs to a minimum, nevertheless, as the number of persons qualifying for benefit increases, administrative difficulties and the detrimental effect on incentives to work and save both increase correspondingly.

The Association, therefore, believing that the alternatives it proposed would remove the defects of the present system, recommended that a federal program of old age security be established, under which benefits at a universal flat rate would be payable without means test but subject to a reasonable residence qualification. The Association expressed the opinion that the pensionable age should probably be 70 and that benefits should be fixed at a level that could be met without placing an undue burden on the economy. It did not, however, recommend any specific amounts. It proposed that benefits should be subject to partial recovery through income tax and that the program should be financed in full on as broad and equitable a pay-as-you-go basis as is possible.

Benefits

Universal Flat Rate Benefit. The Association recommended that benefits should be payable to all older Canadians without means test but subject to a reasonable residence qualification. It argued that benefits should be payable on a universal basis because, apart from imposing a means test, this is the most practical way to ensure that all who require it receive assistance. No detailed records are required, no difficulties arise because of movement between covered and non-covered employment. A basic floor of old age protection is offered to all income classes and there is no discrimination between segments of the population.

The Association urged that benefits should be paid in the same amount to all. It argued that the benefit should be a flat amount as the state should not distinguish between economic classes. An additional merit would be that benefits payable to low income groups would represent a larger proportion of their normal income, so that those most in need of assistance in old age would receive benefits nearer their requirements than under a plan providing graded benefits. The Association argued that flat benefits ensure simplicity and economy by eliminating the necessity for detailed records of prior coverage and income.

The Association also expressed the belief that flat benefits would facilitate the integration of existing employee pension plans. For example, in the case of an industrial plan providing benefits at an earlier age than the federal plan, it would be relatively simple for larger benefits to be paid under it until pensionable age was reached under the federal plan, and a smaller benefit thereafter, so that an employee would be assured of substantially level benefits in his retirement years.

While there might be special reasons for the American graded benefit system, due to wide variations in living costs, climatic or other conditions in the United States, the Association contended that the adoption of such a system in Canada would not be in this country's best interests for the following reasons:

(*a*) the function of a federal plan is not to provide benefits related to the previous economic status of an individual but to ensure, by a method that encourages thrift and incentive to work, that Canadians will not be destitute in old age;

(*b*) graded benefits would entail maintenance of elaborate long-term individual records;

(*c*) it is not possible to provide universal coverage when benefits are related to contributions;

(*d*) benefits, under a graded system, would be greatest for that portion of the population best able to make personal provision for old age through normal savings; and

(*e*) at present, aged persons and those reaching benefit age for many years to come, would, under a graded benefit scheme, be required to rely, at least in some measure, on assistance benefits.

Amount of Benefit. The Association considered that benefits should be fixed at a level which could be financed without placing an undue burden on Canada's present and future productive capacity. It pointed out that there seems little doubt that determination of benefit level would be dictated by costs involved and the financial strain the economy could be expected to bear. The Association argued that aggregate benefits payable at any given point of time are a direct charge on goods and services produced at that time. It pointed out that, if benefits were too high, recipients would enjoy a purchasing power disproportionate to that of the whole population. As Canadians spent a monthly average of $65 on goods and services in 1948, and $68 in 1949, the Association considered it obvious that, apart from the cost factor, benefits should not approach this level since most beneficiaries, it was believed, possess at least some private resources.

Cost figures were presented by the Association for pensions of $30 and $40 monthly. While the witness suggested in testimony that $40 a month was perhaps on the high side, payment at this rate would not be opposed by the Association. However, in the opinion of the organization a benefit rate in excess of $40 a month would tend to place recipients in possession of purchasing power disproportionate to the average of the population as a whole.

Means Test. The Association argued that while the means test has an important effect in minimizing cost, it is difficult to handle fairly except on a local basis, and benefits are uncertain, as payment depends on the individual judgment of administrative officials. The test destroys incentive to accumulate personal savings and to continue working. While the Association agreed that some form of means test would be required by local authorities in providing supplementary assistance to needy persons, it considered that the means test should not in future form part of any federal plan.

Age Requirement. The Association suggested that benefits, if payable to all, should commence at a specified age which should probably be age 70. The primary function of federal old age benefits, in the opinion of this organization, should be to guarantee that no Canadian will be destitute when reaching an age when no longer able to work, rather than to establish a nation wide plan which would stimulate the withdrawal from the labour market of persons still able to produce wealth. The Association argued that this was of special importance in view of the increasing aged population and improvements in general health and working conditions which make it possible for persons to work to a later age than formerly. The Association expressed the belief that people lead happier lives if occupied in some suitable way as long as possible, and that they should only qualify for old age benefits at an age when a substantial portion of the population is no longer capable of performing useful work.

Residence Qualification. The Association suggested that benefits should not be paid without a reasonable residence qualification but did not consider itself competent to specify what the requirement should be. The witness testifying for the Association stated, however, that he considered the present requirement too long.

Financing the Program

In discussing methods by which the program could be financed, the Association emphasized and illustrated, by cost figures and contribution rates,

the extremely high cost of any nation wide plan of old age benefits. It stated also that under the recommended pay-as-you-go system contribution rates must rise as the proportion of aged persons in the population rises.

Contributions. In the opinion of the Association, contributions should be collected on as broad and equitable a base as possible and in such a way that people would realize they are contributing to the support of the current aged. It emphasized that contributions should not lose their identity but should be credited to a special account in the consolidated revenue fund.

The Association urged that the system of contributions be simple from the point of view both of understanding on the part of the contributor and of practicality of administration. It expressed the belief that these principles would be combined in varying degrees by a contribution payable as a percentage of personal income below a specified maximum, by the contribution of a flat amount by all adults below benefit age, or by a sales tax levied on a broad group of items in more or less universal use.

The Association noted the view that employers should share in the payment of contributions, as they would thus be relieved of part of the cost of providing adequate pensions for employees, as employees might consider the employer to be receiving preferential treatment if he did not contribute, and as it is important to encourage employers to take an active interest in old age security for their employees. However, the Association considered there is room also for the view that every Canadian should be liable for his own contribution, that differentials in rates for the employed and self-employed should be avoided, and that the employer should not be required to contribute toward a flat pension when he might still have to establish pensions above the federal floor.

Recovery of Benefit Through Income Tax. From the point of view of cost and of maintaining equality between working and non-working taxpayers, it was suggested by the Association that benefits should be recoverable in part through income tax in the case of recipients having significant income from other sources.

Funding vs. Pay-As-You-Go. While the Association agreed that employee pension plans should be funded on an actuarial basis, it did not consider it desirable that this practice should be followed in any national old age benefit plan. The Association argued that under a funded scheme the amount that would be required for benefits to persons qualifying for pension at the commencement of a national program would be very large and could be raised by borrowing, but interest charges would have to be paid by the taxpayer, so that the total amount collected from the population to operate the fund would be substantially the same, despite this complicated procedure. At the same time, the Association pointed out that, although the proportion of aged persons is growing, the rate of growth is insignificant compared to growth in the proportion of pensioners that may be expected under an employee pension plan. While it would be possible, in the opinion of the organization, to levy, at the commencement of a national old age pension program, a somewhat higher contribution than would be required for current benefits, in order to stabilize the contribution rate over the years, it did not appear that the increase in rate to be expected on account of the increasing proportion of aged persons would be so serious as to justify the complex accounting that would be involved. The Association also expressed the view that the accumulation of such a fund would give rise to demands for increased benefits. In addition, the Association pointed out that it must be assumed that the state will continue in perpetuity and with full taxing powers, as opposed to the employer who might not continue indefinitely in business or enjoy perpetual profits.

The Association also directed attention to the fact that none of the plans in effect in the United States or Commonwealth countries is funded on a full actuarial basis and that, in the United States, although the prospective benefit load will increase very sharply, only a limited amount of funding has been done and there appears to be little doubt that much higher contribution rates will be required in future, perhaps supplemented by federal grants from general revenue.

The Association, therefore, emphasized that it attached great importance to the necessity of financing in full on a pay-as-you-go basis. It urged that contribution rates should be fixed over a relatively short period at a level which, together with anticipated recoveries through the medium of income tax, would produce an amount approximating closely to the expected cost of the benefits to be paid during each such period. A simple and clear form of financing of this type would in the opinion of the Association enable Canadians generally to form a wise judgment as to the level of benefits that should be paid.

Welfare Organizations

The Canadian Association of Social Workers

The Canadian Association of Social Workers in its brief approached the problem of old age security from the viewpoint of its special knowledge of basic human needs, and more particularly the individual needs of the increasing numbers of older people in the population today. The Association stated that the largest factor contributing to social change is Canada's increasing industrialization, with its consequent changes in family life; living in small homes and often distant from relations, today's society of employees is unable to absorb the shocks of illness, unemployment and old age within the family group and older people must look increasingly to the community for their security.

The Association argued that all aged citizens, the majority of whom do not have sufficient private means upon retirement, should be able to look forward to a predictable income at a given age from a known source, as of right. In the opinion of the Association, employee pension plans, while useful as a supplementary form of income security to workers with long service, are inadequate as a basic program because of poor coverage and inequitable benefits. The Association expressed a fear that the present trend towards employee pensions would result in serious curtailment of individual freedom through loss of mobility, and might create a chaotic and extravagant system of administration.

The Association recommended the establishment of a national compulsory contributory old age insurance program, under which benefits would be paid without means test and at a flat rate sufficient to permit a living standard of health and decency. Comprehensive coverage was envisaged by the Association although, as the right to benefit would be related to contribution record, difficulties would be encountered in achieving a universal benefit. The Association recognized the need for supplementation through public assistance, to meet individual needs beyond those which could be met through the basic benefit.

In addition, while income security against wage loss at retirement was accepted as a matter of basic importance, the Association emphasized that the needs of the aged extend beyond mere income requirements, and that provision for these needs should be an integral part of a comprehensive and integrated program under which health, welfare and community services would be provided. The Association stressed the need to encourage and assist older persons

to remain in productive employment, and to provide them with medical and nursing care and other health services, adequate housing under public and private auspices adapted to the individual needs of old people, and special community services designed to encourage recreational interests and the continuation of family life. The Association argued that the development of these various services for the aged depends on a larger knowledge and understanding of older people and their potentialities, on the availability of trained personnel, and on research in all phases of services for the aged.

Uniform Flat Rate Contributory Pension Program

Amount of Pension. The provision of a uniform flat rate benefit recommended by the Association was based on the belief that, under a contributory scheme, the amount of an individual's benefit should not be directly related to the size of the contribution made. The amount of the benefit was not stipulated but the provision of sufficient income to permit a living standard of health and decency was considered essential by the Association. In keeping with its belief that every effort should be made to maintain older persons in productive employment, the Association recommended that the contributory scheme should only depart from payment of a uniform rate of benefit if an additional increment is given for delayed retirement.

Means Test. The Association recommended the abolition of the means test on the grounds that, unless administered with great skill by trained workers, the test can be a humiliating and damaging experience, interfering with the management of personal affairs and undermining independence. The difficulties of effectively administering the test for the large numbers now in need of aid, unjustifiable administrative costs in proportion to the amount saved, and the serious delays incurred when persons are in immediate need, were other reasons advanced by the Association to support this recommendation.

The Association suggested that reasonable employment activity should be allowed under such a scheme, without reduction in the amount paid; for example $1,500 is the current income tax exemption for single persons 65 years and over.

Financing the Program. The Association proposed that the program be financed through tripartite compulsory contributions from individuals and employers and from the federal government, through consolidated revenue. The Association stated that a regular contribution from individuals establishes a contractual relationship with the government, so that a measure of individual responsibilty for the cost of benefits is provided, and the risk of extravagant demands for increased benefit is reduced. In the opinion of the Association, the contribution would add substantially to the sense of security which is as important as adequate pension, and would remove the suspicion, present under any means test program, that the recipient is in receipt of benefits for which he has not made some direct contribution. The Association considered that contributions from employers, on the basis of pay roll, would allow that group to contribute their fair share of the cost without recourse to widespread adoption of industrial pension plans. The Association expressed the belief that a government contribution would be required to supplement that of low income groups who would be unable, without jeopardizing their present well-being and that of their dependents, to contribute an amount adequate to provide for sufficient pension to meet their future needs.

Administration. The program recommended by the Association would be administered by the federal government. The witness indicated it would be necessary to maintain records so as to establish eligibility (i.e., that a minimum

number of contributions had been made), but that as the pension would be paid at a flat rate it would not be necessary to record the amount of contributions on which the amount of pension was based. No specific recommendations were made as to how the contributory scheme could be made universally applicable. However, the Association contended that it would be easier to collect contributions from a worker as a contributor than as a taxpayer.

Public Assistance Program

The Association strongly urged that more adequate provision be made for supplementary assistance than is now available in many parts of Canada. To meet special individual needs, beyond basic benefit entitlement, the Association recommended a secondary program of public assistance, based on a needs test.

The Association emphasized that such a program should provide not only for special income needs, but a variety of welfare services, particularly the provision of more adequate medical care. No method of financing such a program was suggested by the Association, except that it should not use funds from the contributory scheme, but should remain a public responsibilty at some level of government. Since this program would be developed to meet special individual needs, the Association urged that it be administered by a trained staff capable of offering skilled case work services.

Other Services for the Aged

The Association said that serious consideration should also be given to the development and integration of certain community services required for the aged; for example, it suggested the use of funds available through Central Mortgage and Housing Corporation for the development of plans under a wide variety of public and private auspices, for suitable housing accommodation for both well and chronically ill aged persons of all income groups. The development of other community services such as home nursing and housekeeping services, mobile meal services, recreational clubs, holiday centres and so on, is also important in the opinion of the Association; these would tend to keep aged persons well and in their own homes and would therefore reduce costs to the community. The Association proposed that fees for these latter services should be charged according to ability to pay.

The Association expressed the belief that particular attention should be given to the establishment of a variety of facilities for medical and nursing care. A positive approach to medical treatment, general nursing and rehabilitative services for the chronically ill is required in the opinion of the organization. In this regard, a form of government subsidy might be made available to licensed nursing homes, operated by reputable agencies on a non-profit basis and offering care to minimum income groups.

The Association considered that research would be required on all phases of individual and community services. To this end, the use of the National Health Grant Program for research and study of the medical and psychological needs of the aged was recommended by the organization. In discussion, the witness for the Association emphasized the necessity for the federal government to provide leadership, particularly wtih regard to social and medical research and consultative services in the field of geriatrics and some assistance to those levels of government now providing various social services to the aged. Finally, since the effective operation of the recommended services would depend upon the provision of skilled personnel, including doctors, nurses and social workers, the Association considered it important to provide training through scholarships, grants and the organization of special courses by appropriate educational bodies.

The Canadian Welfare Council

The recommendations of the Canadian Welfare Council were made on the basic assumption that comprehensive social security measures are a necessity in modern society. The Council expressed the view that by protecting the individual from the major hazards of life against which, except in the case of a fortunate few, he is powerless to protect himself, these measures increase his productivity and usefulness to the community through removal of the paralyzing fears of unemployment, prolonged illness and old age. The Council contended that social security measures, provided they are financed largely from general revenue or from general contributions based on ability to pay, stimulate consumption and make full use of productive capacity. The Council pointed out that ten per cent of national income has been proposed by an expert of the International Labour Organization as a reasonable expenditure on social security for a prosperous country. Canada's present expenditure is approximately half this amount. The Council also directed attention to the fact that in countries with well developed social security systems, such as Great Britain, Australia and New Zealand, an estimated one third of total welfare expenditure is devoted to the needs of the aged and an equal proportion to the maintenance of children. The Council estimated that probably more than one third is now expended on family allowances in Canada but a much smaller proportion on old age pensions.

In addition to adequate old age income security measures, the Council emphasized the necessity of ensuring that other needs of the aged are met. In the opinion of the Council, older workers desire to remain in productive employment as long as possible; experience in Great Britain since 1948 has indicated that, of persons reaching the retirement age of 65, two thirds of the men and one-half of the women have chosen to forego retirement benefits and continue in employment. At the same time, the Council pointed out that in Canada, workers as young as 45 find it difficult to continue in regular employment, particularly when the demand for labour is less than the supply. Planning and maintaining a full employment policy was viewed by the Council as an important part of old age security policy, in order to provide a demand for the services of the older worker as well as to facilitate personal savings for old age and to support the financing of social security measures.

The Council discussed the living costs of aged persons in relation to their particular needs, and emphasized the significance of such factors as their inability to buy economically and to find suitable accommodation within their means. The Council pointed out the need to relieve older persons of proportionately heavier costs of health care, and to provide special medical, hospital and home nursing services, as well as recreational, counselling and other facilities. The co-operation of all levels of government, private agencies and citizen groups is required to meet these needs.

In commenting on the existing old age pensions program the Council observed that the means test has the advantage of providing assistance to those who need it most, within the limitations of the eligibility requirements, and that the Act has proved capable of expansion as required. The Council pointed out that any proposed increase in expenditures can be forecast fairly closely and the present method of financing from general revenue has meant a simple adjustment to increased costs.

On the other hand, the Council contended that the Act contains serious defects. The total allowable income is considered by the Council to be too low; the 1949 amendment increased the pension but did not increase the amount

of outside income allowed. The Council considers that the accumulation of small savings is now discouraged, and deductions from pension are disproportionately expensive to administer because of the present low allowable income. The period of residence required is too long in the opinion of the Council; any immigrant who comes to Canada will have to be provided for in case of need, and those whose need is due to their age are more logically cared for in a program for the aged, than through other forms of assistance. Old age cannot be rigidly defined in chronological terms, and the present age requirement excludes prematurely aged or incapacitated persons from assistance. Indians and Eskimos should be eligible for old age pensions as for family allowances, in the opinion of the Council.

The Council considered that simplification in the procedure for estimating income would be desirable, since the administrative costs involved are out of all proportion to amounts saved by making deduction for gifts, casual earnings, small pensions and income from similar sources. Differences in interpretation and application of the regulations now exist among the provinces. These differences are said to permit adaptability to local conditions, but the Council expressed the view that since a high proportion of costs is carried by the federal government, pensioners should receive a greater degree of equity. Finally, in the opinion of the Council, liens, registered against estates in some provinces, give the pension the appearance of a loan, and add to the stigma of the means test.

The Council outlined three possible alternative approaches to the question of old age income security: continuation of the existing program, amended to meet these criticisms; introduction of a system of insurance in which benefits are related in some degree to the amount and period of contributions; and introduction of a flat rate pension at a given age to persons satisfying a minimum residence requirement.

The first of these alternatives was rejected as a basic scheme, because the Council regarded the philosophy of the means test as untenable in Canada and because, if the means test were relaxed, costs would approach those of a universal pension. However, if the program recommended by the Council were rejected, a means test scheme amended to meet the above criticisms would be acceptable, provided that if the principle of joint responsibility were retained, the federal government should be given power to require standards; the alternative would be federal administration.

The insurance principle encourages responsibility, gives assurance of benefits and protects against excessive demands but, on the other hand, the Council argued that older people would not receive adequate retirement benefit for as long as three generations unless heavy government subsidies are provided. In the opinion of the Council only incomplete coverage would be possible, subsidies would be required for low income groups, and public funds would be expended in support of a program from which all citizens would not benefit. The expense of administration would be large, and the Council contended that the necessarily large reserve fund would create investment problems. For these reasons the Council recommended that such a program be employed, if at all, only as a supplementary measure.

The third alternative, a universal flat rate pension was recommended by the Council as it is simple to administer, avoids reserve fund and means test difficulties, does not conceal government subsidies and is consistent with social security in the true sense since persons contribute according to their means in order to provide protection to those who need it. The Council recommended that such a pension be paid at age 70 as of right and, in addition, to unemployable

persons aged 65 to 69. In addition the Council made certain recommendations concerning other supplementary services to the aged and concerning provincial and local public assistance programs.

Universal Basic Pension

Amount of and Qualifying Conditions for Pension. The Council proposed that a universal flat rate pension be paid as of right to all persons, including Indians and Eskimos, aged 70 or over, in an amount that would provide the majority of recipients with a minimum standard of health and decency. Pensions in the same amount should be paid to those persons aged 65 to 69 who are prematurely aged and unable to support themselves, and to their wives if retired from employment. Pending a careful study of living costs, the Council recommended that the pension should be at least $40 per month, with the amount being reviewed every three or five years.

Veterans in receipt of war service pension should, in the opinion of the Council, be eligible for old age pension on the same terms as civilians; when a veteran in receipt of veterans allowance becomes eligible for old age pension his allowance should be reduced by the amount of pension.

In determining pensionable age the Council assumed that few persons aged 70 or over are physically and mentally capable of regular employment and recommended that the pension should be given to all this group, whether working or not. A considerable proportion of the 65 to 69 age group are, in the opinion of the Council, still capable of performing useful remunerative work, and the suggested amount of pension would not be sufficient to encourage early retirement especially as most old people prefer to work when possible.

As it was desired to provide pensions only for persons unable to work, it was suggested by the Council that, for the age group 65 to 69, a health rather than a means test should be employed to determine unemployability. While the Council agreed that a health test might be difficult to administer initially, it pointed out that such tests are involved in invalidity and disability programs in many countries as well as in mothers allowances, workmen's compensation, military pensions and war veterans allowances in Canada. The Council suggested that it might be necessary in the beginning to define qualifying conditions somewhat arbitrarily but as experience in geriatrics was gained it would be possible to broaden the test.

The Council recommended a residence requirement of possibly five years, the period required to qualify for citizenship. It considered that the basic needs of all aged persons, including former immigrants, should be met through the old age pension rather than an assistance program.

Financing the Program. The program recommended by the Council would be financed to a major extent either by an earmarked social security contribution, or out of consolidated revenue, or through some combination of these two methods. The Council proposed that if a social security contribution were employed, contributions should be required only from persons with incomes over the amount considered necessary to maintain a minimum standard of living, and should be graded according to ability to pay. The witness stated that majority opinion in the Council appeared to favour the social security contribution. Employer contributions were not recommended by the Council because of the tendency for incidence of the tax to be shifted.

The Council suggested that pensioners should be required to submit annual income tax returns and, through modification in the present income tax

exemption for persons aged 65 and over and application of revised rates, the amount of pension should be progressively recovered, beginning at the point where income provides more than a minimum standard of living.

The program proposed by the Council would be financed on a pay-as-you go basis so that it could be adjusted to changing economic circumstances. Variations in the rate of contribution or taxation from year to year could be avoided by setting a rate which, averaged over a period of years, would provide the amount necessary to pay the total amount of benefits during that period. The Council considered that future costs could be calculated with considerable reliability after the first year or so of operation.

The Council estimated the cost of a $40 pension to all persons aged 70 and over, and to prematurely aged persons over 65, (assuming these to be 30 per cent of the 65 to 69 age group) at approximately $385 million in 1951, $490 million in 1961 and $583 million in 1971. While these amounts compared to the present $138 million expenditure were admitted by the Council to be substantial, the general desire to improve the condition of elderly persons in spite of the expected increase in cost, was noted. The Council pointed out that needy aged people are already being provided for through local or private charity, and that in addition, part of the cost would be recovered through income tax. Additional savings would result if the federal government maintained economic policies that would ensure employment for older persons. Finally the Council pointed out that this recommended program would not discourage thrift and saving.

Administration. The Council proposed that the program be administered by the federal government with administrative procedures kept as simple as possible. To permit flexibility and simplicity of operation, pensions for prematurely aged persons in the 65 to 69 age group should, in the opinion of the Council, be administered through regional boards.

Other Services for the Aged

The Council emphasized that although an old age income security program is essential it should be accompanied by a program to assist older people to remain in employment and in mental and physical condition to continue working. As the provinces would be relieved of the costs of pensions under the program recommended by the Council, they should be better able to provide medical, hospital and other institutional care, as well as recreation and counselling services. The Council submitted that the federal government, through the National Health Grant Program should encourage the provinces to give more attention to the medical care of older persons as well as to research in this field and suggested that, in regard to supplementary programs for the aged, the federal government provide technical consultant services to the provinces. In the opinion of the Council, the federal government should arrange for special provisions to be made for old people in the housing projects to which it contributes.

The Council also stressed the fundamental importance of qualified personnel in any program for the aged. It emphasized that social workers are needed for meeting problems arising from determination of eligibility for pension in the 65 to 69 age group and in such other aspects of the recommended program as rehabilitation, shelter, institutional care, recreation and case work services. The Council maintained that existing shortages of personnel call for rational use of the available supply of workers and for government support of training programs.

Public Assistance

The Council drew attention to the necessity of providing assistance, through provincial and local governments, for persons whose needs are not fully met by the federal pension. The Council emphasized that federal grants to the provinces are urgently required if existing standards of general assistance, which at present vary widely between different areas, are to be raised.

COMPARATIVE ANALYSIS OF VIEWS PRESENTED BY THE ORGANIZATIONS

The nine organizations, whose briefs are discussed above, generally approached the provision of old age security in terms of the income maintenance needs of older persons although a number were equally concerned with the necessity of developing a wide range of social services for the aged. Some organizations emphasized that old age security should not be considered in isolation but within the context of a larger national social security program.

The majority favoured a basic income maintenance program, under federal auspices, which would provide a flat rate pension, without means test, to all persons at a certain age, although there was some divergence of opinion concerning the amount of pension and the age at which the universal benefit should commence. This approach was supported by the Canadian Association of Social Workers, the Canadian Chamber of Commerce, the Canadian Congress of Labour, the Canadian Life Insurance Officers Association, the Canadian Welfare Council, and the Trades and Labour Congress of Canada. In the program proposed by la Confédération des Travailleurs Catholiques du Canada a universal flat rate benefit plan was also suggested, but under federal-provincial administration and as a complementary measure to the gradual extension of retirement security through employee pension programs.

Six of the seven organizations recommending this approach made suggestions with respect to methods of finance. These organizations would obtain revenues, in part or in whole, from earmarked taxes. With the exception of the Canadian Association of Social Workers, none of these organizations would maintain individual contribution records in order to relate benefits to contributions. For the most part, these organizations favoured pay-as-you-go financing.

A different approach was put forward by the Canadian Manufacturers Association, which proposed a contributory insurance scheme under which coverage would be extended as far as administratively feasible, with eligibility for and amount of benefit related to contributions. The scheme would be financed on a modified pay-as-you-go basis with a small contingency reserve.

A third approach was suggested by l'Union Catholique des Cultivateurs, which recommended the improvement of the existing means test program; the witness representing this organization indicated, however, that they would not be opposed to the provision of a universal flat rate pension.

All organizations, with the exception of l'Union Catholique des Cultivateurs, strongly criticized and rejected the means test as the basic approach to an old age income maintenance program. Most, however, suggested that some form of means test or needs test supplementation of the basic pension at the provincial or local level might still be necessary. Under the Canadian Congress of Labour program, the means test scheme suggested would be supplementary to both their universal flat rate pension and their contributory insurance scheme with graded benefits. While la Confédération des Travailleurs Catholiques du

Canada proposed the extension and development of employee pension plans as the basic retirement security program, most organizations pointed out certain fundamental inadequacies of such plans in providing adequate retirement security on a national basis, but favoured their voluntary development as a supplementary scheme.

Contributory Scheme with Universal Flat Rate Pension

Amount of Pension

The seven organizations which recommended a universal flat rate pension suggested rates of pension ranging in amount from $30 to $60 a month. The lowest rate of $30 was recommended by the Canadian Chamber of Commerce as a tentative and exploratory measure; the witness for this organization considered that this amount might be increased after a period of administrative experience. In suggesting this rate, the brief of this organization drew attention to the government's present budgetary position, rising defence costs, and the fact that flat rate pensions become fixed and rigid items in governmental expenditure and tend to increase rather than decrease over the years. The Canadian Welfare Council would set the immediate rate at least at $40 a month, but suggested a review of the amount in terms of a minimum standard of health and decency after a careful study of living costs. The Canadian Association of Social Workers also followed this approach but recommended no specific pension rate. The Canadian Life Insurance Officers Association, while not opposing a $40 pension, believed this rate rather high in relation to current average expenditure on goods and services, and suggested that most elderly people have some personal savings, or other resources. The Canadian Congress of Labour, on the other hand, severely criticized the existing $40 pension particularly in the light of a national income of nearly $13 billion, and proposed $50 as a moderate figure. La Confédération des Travailleurs Catholiques du Canada also recommended $50 in the light of present-day living costs. A $60 pension was proposed by the Trades and Labour Congress of Canada as a reasonable amount in view of the present average income of the working population and present-day living costs; the Congress suggested that this amount should be high enough to preclude the necessity for privately financed pension plans for the working population.

Pensionable Age

There was some variation with respect to the pensionable age suggested by the seven organizations recommending a universal pension. Most, however, stressed the need, for both economic and psychological reasons, of encouraging and assisting elderly persons to remain in gainful employment as long as they are able to do so.

Four organizations, the Canadian Congress of Labour, the Trades and Labour Congress of Canada, la Confédération des Travailleurs Catholiques du Canada and the Canadian Association of Social Workers recommended a pensionable age of 65. In support of this retirement age the belief was expressed by some of these organizations that retirement at 65 is preferred by both employees and employers, that older workers encounter difficulties in obtaining suitable employment and that there is a significant degree of indigence among the population over 65. While the Canadian Association of Social Workers recommended payment of a predictable minimum income at age 65, with an additional increment for deferred retirement, the Canadian Welfare Council recommended a universal pension payable at age 70 and a basic pension for the prematurely aged in the 65 to 69 age group, based on a health test.

A pensionable age of 70 years was suggested by both the Canadian Chamber of Commerce and the Canadian Life Insurance Officers Association, who opposed a reduction in pensionable age to 65, on the basis of cost considerations and on the ground that nothing should be done to discourage thrift and personal incentive to continue work. Universality of pension payments should apply only at an age, such as 70 years, when substantial numbers of the population are no longer able to continue useful work.

Other Qualifications

Four organizations discussed residence qualifications for the basic pension. The Canadian Life Insurance Officers Association believed that the pension should be subject to a "reasonable residence qualification" and the witness for the Association expressed the personal opinion that the present requirement of 20 years was too long. The witness for the Canadian Chamber of Commerce on the other hand expressed the view that the present residence qualification under the Old Age Pensions Act might be appropriate. The Trades and Labour Congress of Canada considered the present residence provision too high and believed that 15 years would be adequate. The Canadian Welfare Council recommended a residence requirement of possibly five years which would correspond with the present requirement for the attainment of citizenship.

Sources of Revenue

The use of specific earmarked contributions for old age security purposes was supported by all organizations discussing possible revenue sources. It was repeatedly emphasized that all Canadians should have a direct and conscious financial responsibility in the provision of old age income security, and should be made aware of their responsibility to meet the costs through an earmarked device. Most of these organizations would utilize general revenue in conjunction with these earmarked taxes.

The Canadian Association of Social Workers and the Trades and Labour Congress of Canada specifically recommended social security contributions. The Canadian Welfare Council proposed that its program be financed to a major extent through an earmarked social security contribution graded according to ability to pay, or out of consolidated revenue, or through some combination of these two methods.

The Canadian Congress of Labour suggested a number of alternatives without recommending any one revenue source or combination of sources; these included the restoration of corporation excess profits taxes, a graduated increase in personal income tax rates, the lowering of income tax exemption levels for the specific purpose of financing an old age program, and finally the elimination of the special tax exemption now allowed to persons over 65.

The Canadian Life Insurance Officers Association put forward three possible types of earmarked revenue sources, including a contribution payable as a percentage of personal income up to a specified maximum, payment of a flat amount by all adults below benefit age, and a sales tax levied on a broad group if items in more or less universal use. In the Association's view, such taxes should be collected on as broad and equitable a base as possible and should carry the full cost except for administration.

The Canadian Chamber of Commerce, while equally concerned that all Canadians contribute, did not suggest specific revenue sources; it was indicated in testimony, however, that both direct and indirect earmarked taxes should be used.

Reserves

There was general agreement that universal flat rate pensions should be financed on a pay-as-you-go basis. While the provision of a fully funded reserve was uniformly rejected by those organizations considering the question of reserves, some, however, suggested the need for a contingency reserve.

(i) *Fully Funded Reserve.* This type of reserve is developed under a deferred equity insurance scheme. While not favouring such a reserve, the Canadian Welfare Council outlined the chief advantages claimed, namely, that by relating benefits to contributions it encourages a sense of personal responsibility, gives assurance of benefits due at a future date and protects the public treasury against excessive demands. Criticisms of such a scheme suggested by some organizations included the belief that a large reserve fund might be uneconomically accumulated and that such program would require a complex administrative mechanism and would be open to the danger of high administrative costs; furthermore, accumulation of such a fund might be misunderstood and give rise to demands for increases in benefit.

(ii) *Pay-as-you-go.* A number of organizations supported the principle of pay-as-you-go in preference to a large reserve fund, for a variety of reasons, including the following: such a method would permit a flexible fiscal policy which could be varied in the light of changing economic conditions and resources; the payment of pensions of a particular amount depends upon the willingness and ability of the working population at any one time; the total amount to be collected from the population would not be reduced by the use of the funded reserve. A pay-as-you-go method, where revenues and expenditures are balanced over a short period of time, is, according to the view of one organization, best calculated to avoid unwise extensions in the benefits payable under the plan, since the working population would at all times be paying for the benefits being received by the current aged and might therefore be expected to resist any proposals for their unwarranted augmentation. It was also submitted that a simple and clear form of financing of this type would enable Canadians generally to form a wise judgment as to the level of benefits that should be paid in the light of the true costs involved; further, it was pointed out that none of the plans in the United States or the Commonwealth operate on a fully funded reserve basis.

(iii) *Contingency Reserve.* Although no organization recommended the use of a fully funded reserve, two suggested some type of contingency reserve. The witness for the Canadian Welfare Council proposed that a contingency reserve might be developed within the framework of pay-as-you-go financing, so that in meeting the rising cost of pension payments, annual adjustments in the contribution rate would be avoided. The Trades and Labour Congress of Canada pointed out that while pension payments would remain on a relatively fixed base, contributions would be collected from a relatively changing base; accordingly, it suggested a small fund, perhaps equal to one or two per cent of annual pension payments, to act as a cushion during periods of adverse economic conditions.

Administration

Six of the seven organizations supporting a universal pension recommended that it be administered by the federal government, while la Confédération des Travailleurs Catholiques du Canada considered that the present system of federal-provincial administration should be continued under the proposed universal pension scheme. La Confédération asked, also, that worker representation be included in the membership of commissions appointed to administer the pension program.

Contributory Insurance with Graded Benefit

Two organizations suggested a contributory insurance scheme with graded benefit. The Canadian Manufacturers' Association put forward this type of program as a basic pension plan, while the Canadian Congress of Labour recommend such a scheme as a supplementary measure to a basic universal flat rate pension.

The Canadian Manufacturers' Association rejected the payment of a universal flat rate pension not only in the light of the increasingly burdensome costs involved, but also because increasing longevity and the gradual lenghtening of the period of education are causing a steady decline in the percentage of the population from whose production the cost of pension payments must be met. In the Association's view the provision of a pension on a flat rate uniform basis is not considered feasible in countries where there is a wide spread between wage rates in various occupations and geographical areas.

The Association proposed an old age insurance program under which pensions would be payable at retirement on the basis of individual contribution records, related in some degree to previous earnings in covered employment. Coverage would be limited initially to wage earners now protected under unemployment insurance, but would be extended towards universality as rapidly as administratively feasible. The scheme would be supported entirely by equal contributions from employees and employers except for the cost of administration. Contributions would be levied on all earnings up to a specified limit. Pensionable age should be set at "well above 65". In order to encourage retired workers to continue occasional employment, the pension should not be reduced unless earnings exceed a specified amount which would be higher than the allowable income under the present means test program.

This program, in the opinion of the Association, should be financed on a modified pay-as-you-go basis. A contingency reserve should be built up to the level of two or three years of pension payments. The recommended insurance scheme might possibly be integrated with federal unemployment insurance. Additional supplementation would be provided through the retention of a federal-provincial means test program.

The Canadian Congress of Labour's supplementary contributory insurance scheme would also relate eligibility for and amount of benefit to contributions. The Congress proposal called for government contributions as well as employer-employee contributions. The Congress, having recommended a universal flat-rate pension as a basic program, favoured graded benefits under their supplementary scheme. The Congress argued that flat-rate benefits here would tend to be tied to the lowest incomes, and better paid groups would thus receive retirement pensions disproportionate to their previous incomes.

Means Test Approach

There was considerable criticism of the means test. All organizations except l'Union Catholique des Cultivateurs urged the abolition of this test in any basic pension program. However, a number of these organizations suggested that some type of means test supplementation to the basic retirement measure, would still be necessary.

The criticism of the means test as put forward by the organizations might be summarized as follows: such a test with its undesirable stigma of indigence, penalizes thrift and discourages personal saving, destroys the initiative to continue productive employment, undermines the independence of the individual and interferes with the management of his own affairs. It cannot be effectively

administered considering the large numbers now in need of assistance, and finally it provides assistance which is uncertain and unpredictable, as payment depends, to some extent, on individual judgment. Furthermore, the program as at present administered by the respective provinces introduces variations in administrative provisions regarding eligibility, which in turn produce a serious inequity as between applicants in similar circumstances.

While l'Union Catholique des Cultivateurs sponsored an improved means test program the witness for that organization indicated that they would not be opposed to a flat-rate universal pension. At the same time, this organization opposed a compulsory contributory old age retirement scheme and favoured the provision of a subsidized annuities program in addition to the basic means test program.

L'Union urged that the present means test provision should be broadened in order to encourage thrift and to avoid some administrative complications. Ownership of personal assets should be permitted up to the value of $10,000 and the program should be financed and administered as at present.

The amount of pension should bear some relation to living costs but should not be so high as to relieve the individual of all responsibility for his maintenance in old age. The existing pension of $40 was considered a reasonably fair amount at the present time. Pensionable age should, in the opinion of l'Union, be reduced to 65 years because there is a significant amount of need in the 65 to 69 age group.

An alternative approach to the means test was put forward by the Canadian Welfare Council with the suggestion that persons in the age group 65 to 69, if retired and unable to support themselves because of premature old age, should be entitled to a pension of $40 a month subject to a health test.

Supplementary Programs

All organizations considered that some type of supplementary assistance would be required to meet the residual income needs of older persons. Both the Canadian Association of Social Workers and the Canadian Welfare Council favoured payment of such supplementary assistance on the basis of need through adequate programs of public assistance at provincial and/or local levels; the Canadian Welfare Council submitted that such programs should be assisted by federal conditional grants-in-aid. The Canadian Congress of Labour would provide two supplementary programs, a federal tripartite contributory scheme providing graded benefits, and a means test scheme where benefits under the universal and the contributory programs are insufficient in particular cases to meet basic living needs. In addition to these three programs the Congress stressed its continued support of employee pension schemes financed solely by employers. The Canadian Manufacturers' Association would retain either the present or an amended means test for supplementation. The witness for the Canadian Life Insurance Officers Association indicated that any residual needs would have to be met at the local level. In addition to the recommended flat rate pension the Canadian Chamber of Commerce and the Trades and Labour Congress of Canada would not preclude the payment of supplementary pensions such as are now paid by some provincial governments. The universal flat rate pension of la Confédération des Travailleurs Catholiques du Canada was regarded as supplementary to the development of retirement plans negotiated through collective bargaining agreements. While l'Union Catholique des Cultivateurs favoured a basic means test approach, it believed that persons should retain a sense of individual responsibility for their maintenance in old

age, and consequently recommended that the present annuities program should receive federal financial assistance so that it would provide a means of voluntary supplementation for persons in the low income group. Where supplementary programs on a means test or needs test basis were proposed, the organizations generally recommended provincial and/or local administration.

Most organizations looked to employee pension plans, Canadian government annuities, life insurance, and other forms of individual saving, to supplement government-sponsored old age income security programs.

CHAPTER V

BRIEFS AND TESTIMONY OF INDIVIDUALS

Several persons who have specialized in the study of problems being considered by the Committee were invited to give evidence. These included: Mr. W. M. Anderson, C.B.E., General Manager of the North American Life Insurance Company; Dr. H. M. Cassidy, Director, School of Social Work, University of Toronto; Mr. Maurice Lamontagne, Professor of Economics, Faculty of Social Sciences, Laval University; Dr. L. C. Marsh, Associate Professor, Department of Social Work, University of British Columbia; and Dr. Charlotte Whitton, C.B.E.. The Committee received briefs from these authorities and, with the exception of Dr. Marsh who was unable to appear, all testified before the Committee.

Mr. W. M. Anderson, C.B.E.

The witness submitted that the present system of old age pensions subject to a means test has the effect of dividing the aged population into two classes: recipients and non-recipients. Within the recipient group Mr. Anderson contended that because of the means test there is almost complete dulling of the incentive to work, thus contravening the objective of full production by the community as a whole. Since the program is financed out of general revenue from progressive taxation, the witness pointed out that the non-recipients are usually those who have contributed and the recipients are those who have not contributed. In his opinion this situation should not be perpetuated. A "sound and democratic" solution would be the provision of universal flat rate pensions financed by universal contributions.

The Universal Pension

The witness proposed that benefits be paid at a flat rate to everyone at a fixed age. The flat rate benefit treats all individuals alike in old age and does not relate to the previous economic position of the family. Graded benefits are unsatisfactory in the opinion of the witness because they tend to provide the smallest benefit to those in greatest need, thus contradicting the general philosophy of progressive taxation in Canada.

Mr. Anderson recommended that the rate of benefit be set somewhat below subsistence level so as to leave with the individual some responsibility for saving. Further, he argued that the recipient group as a whole should not be in a position where their spending power is beyond that of the population as a whole. However, he considered that it would be undesirable to move to a universal benefit lower than the present means test maximum of $40 monthly, because substantial supplementary means test assistance would still be required. The amount of benefit should be subject to continuous review.

The witness considered that the age of eligibility should not be lower than 70, the present age limit, and said that it would be possible to argue for a higher age. He drew attention to experience in the United States which suggests that most people do not retire before 70.

Finance

The witness rejected the deferred equity approach to financing an old age security program because such a plan might take up to seventy years to mature. He pointed out that during the transitional period those persons reaching benefit age would have had only short contribution periods, their benefits would be small, and they would require supplementary assistance. At the same time, contributions would exceed benefit payments and an extremely large fund would be built up, which, if it were to be productive, would have to be invested by the state. Such investment in the opinion of the witness would tie posterity to an extensive policy of state economic intervention. Another danger would be a political one; a huge pension fund in the state's hands would be a concentration of power and would almost openly invite abuse of that power.

The witness recommended social budgeting on a pay-as-you-go basis. Such a system would avoid the long transitional period required by a deferred equity scheme, would recognize as the most immediate problem the needs of the current aged population, and would meet those needs from the income of the current working population. The pay-as-you-go approach would allow for flexibility under conditions of economic change. It would be an extension to the community at large of the old-time principle operated within the family itself. It would be consistent with universal flat rate benefits since there would be no individual equity. Finally, the pay-as-you-go system would avoid an enormous administrative problem which is inherent in the deferred equity approach.

The method of financing should, in the opinion of the witness, be universal, simple, equitable and practical. Revenue should be sufficient to meet obligations during good times; during bad times supplementary appropriations should be made from general revenue. Revenue should be collected through a proportionate tax. Such a tax would be universal and personal, and thus consistent with universal flat rate benefits. If old age security were financed by a universal proportionate tax on personal income and if changes in benefits entailed changes in the tax, the witness considered that there would be a much clearer understanding of the program.

The best form of tax would be a flat percentage on all personal income, but Mr. Anderson said that the collection of such a tax would be difficult at the present time because of inadequacies in the income tax machinery. For this reason the possibility of a tax on personal spending should be considered.

If a sales tax were selected, the witness argued that it should not apply to food grown in Canada or to rents. This would mean that the impact of the tax would be less on a family of low income, spending a large proportion on food and rent, than on a family of high income spending a larger proportion on taxable items. The witness pointed out that the present sales tax has been estimated to have the same impact as a proportionate tax on all income. A sales tax is easy to collect and does not affect goods produced for export. The witness argued that the tax strikes spending instead of saving, so that on the one hand it encourages thrift, and on the other hand it effects a better recovery from aged beneficiaries than would any modification of income tax provisions in respect of the recipient group. The sales tax could be collected either at the retail or at the manufacturers' level, depending on administrative feasibility.

Supplementary Assistance

The witness considered that only a small percentage of those receiving a universal benefit of $40 a month at 70 would require any supplementary assistance. Such assistance should be provided by local (provincial or municipal) authorities.

It would be undesirable in the opinion of the witness to contemplate a universal benefit commencing below the age of 70. The age group from 65 to 69 might be divided into four categories: those working, those in the labour force but unemployed, those voluntarily retired and those unable to work because they are prematurely aged. Some of these might require assistance, but at present, Mr. Anderson said that there is insufficient information available to suggest any final solution to this problem. Further study would be needed and it would be particularly important to examine the effects of the universal benefit on the living patterns of the group 70 and over.

During an experimental period, the witness agreed that assistance might be provided to the group from 65 to 69 on a partial coverage basis. Whether a means test, a health test, or a work test is used, the proportion requiring assistance would probably be about the same, that is, from one-quarter to one-third of the eligible age group. The assistance should be provided by the provinces because the federal government should concern itself only with a universal program. The provinces would have additional financial resources for the group from 65 to 69 if they were relieved of the burden of assisting those who are 70 and over. If necessary, however, the witness considered that the federal government might share in provincial assistance as it does at present; in this case the federal share should be reduced to 25 per cent.

Dr. H. M. Cassidy

The submission was based on a report entitled "A Canadian Programme of Social Security" prepared in 1947 for the Minister of National Health and Welfare. The witness urged that an old age security program should be set up as part of a comprehensive social security scheme, but expressed the opinion that, if there were any question of having to allocate priorities because of limited financial resources, certain other health and welfare programs, such as rehabilitation of the disabled, public assistance and public medical care, would all give a better return on money invested than would retirement benefits.

Social Security Principles

Dr. Cassidy referred to a substantial body of experience in Canada and elsewhere which suggests that a good social security scheme should have certain fundamental characteristics. It should provide broad coverage, with specialized services to meet diverse types of social need. The social services ought to be co-ordinated as part of a comprehensive system, with minimum standards of service throughout the country. Prevention and rehabilitation should be emphasized. Social security policy should be designed to meet the needs of family units.

The witness said that income maintenance should be assured mainly by benefits as a matter of right; the use of means test programs should be limited. Social security benefits should be sufficient to guarantee at least a minimum standard of living for beneficiaries, and preferably should be related to past or normal earnings. The system should preserve economic incentives and contribute towards economic efficiency.

In the opinion of the witness, revenues should be derived from individual contributions, employer contributions and general tax funds, with capacity to pay as a guiding factor in each case. Individual contributions would be desirable because they are favoured in Canada and elsewhere, both by expert and by public opinion. People would be more willing to pay social security taxes for specific benefits than they are to pay income tax. If a substantial

portion of revenue for social security purposes could be raised from individual contributions, the burden on the consolidated revenue fund would be lessened and the government would be protected from unreasonable demands to raise benefits. Individual contributions would generate personal interest in the social security scheme and would be particularly desirable in Canada because we are already heavily committed to government financed programs,—notably family allowances. The witness emphasized that eligibility for benefits should be clearly related to the fact that contributions have been made.

Dr. Cassidy suggested that the employer should contribute towards the costs of social security, but the employer contribution should not represent a large proportion of total costs, because it would act as a tax on production and would be passed on, at least partially, to consumers.

The witness stated that the government's share, which would make up the difference between individual and employer contributions and total costs should be derived as far as possible from the proceeds of income and other progressive taxes.

Dr. Cassidy urged that there should be a sound adminstrative system with competent personnel. Citizen participation in social security programs should be emphasized. Responsibility for administration and finance should be divided among federal, provincial and local governments, but there should be vigorous federal leadership in all aspects of the social services.

Retirement Benefits

The witness suggested that an old age security program should provide benefits to men who have reached the age of 65, and women who have reached the age of 60. He considered these to be the usual retiring ages, but emphasized that the system should not encourage premature retirement, particularly at a time when the population is ageing, because most people are happier working, and because the cost of retirement benefits rises steeply with the inclusion of lower age groups. There should be a residence requirement of 10 years, and some retirement condition to ensure that a beneficiary would not continue in normal employment. A parallel system of survivors' benefits should be introduced at the same time.

Dr. Cassidy suggested that benefits be graded according to age at retirement. A person claiming benefit at the age of 65 would, under his proposal, receive about $28 a month for the rest of his life, but where retirement is deferred, the amount would be increased for each year of deferment, so that a person who did not claim benefit until he had reached the age of 70 would receive the maximum amount of $48 a month. Although this maximum would be somewhat below basic maintenance, the amount would be close to the limit of allowable income under the present means test program, and the witness considered that the cost of a program on this scale would not be unreasonable. A dependent adult would receive one-half of the primary benefit, and each dependent child would receive one-quarter of the primary benefit. The physically handicapped from 65 to 69 should be included at the maximum rate. The amount of benefit would be adjusted annually in accordance with the cost of living index.

Supplementary Assistance

Dr. Cassidy contended that the success of these retirement benefits would depend on the establishment of a general public assistance program, operated jointly by the federal government and the provinces. This program would supple-

ment all basic social security benefits, including retirement benefits, which were insufficient to provide basic maintenance for those in need. However, the use of means test assistance for old age would be limited, and would eventually diminish to a minimum.

Finance

The witness argued that the retirement benefit program should be financed, in accordance with the social security principles outlined above, by individual and employer contributions, and by federal appropriations from general revenue amounting to about 50 per cent of the total. The total cost of this program would be approximately $400 million. The program should be financed on a pay-as-you-go basis.

The rate of contribution contemplated by Dr. Cassidy would be five per cent on income, with exemptions of $720 for a single person, $1,080 for a married person, and $180 for each dependent child. The minimum annual contribution would be $15; the maximum annual contribution would be $100, so that no contributor would pay more than the cost of his own retirement benefits. In the case of individuals with incomes below the exemption level, it might be possible to collect the minimum contribution of $15 from the provinces; such contributions would be reimbursed to some extent by the federal government in the form of grants for public assistance. Contributions would be collected through income tax machinery. Individual records would be required to establish the fact of contribution for benefit purposes.

Administration

A uniform national system under federal administration was recommended by Dr. Cassidy. A constitutional amendment would probably be necessary in order to establish a federal scheme; alternatively, it would be possible to apply the program only in provinces which would sign tax agreements with the federal government and which would delegate administrative responsibility to the federal authority. Local administration would be carried out through regional offices of the Department of National Health and Welfare.

The program outlined by Dr. Cassidy would provide for a simple system of administration with automatic payment of benefits to all those meeting certain basic conditions, such as proof of age, contributions and retirement.

Government Annuities

The witness added that, concurrently with the introduction of a new retirement scheme, the Canadian government annuities program should be revised and strengthened in order to encourage additional voluntary provision to supplement retirement benefits. The annuities program should be administered as part of the total program of old age security.

Mr. Maurice Lamontagne

The submission was concerned primarily with methods of financing an old age pensions program. The witness stated, however, that the method of finance must be consistent with the objectives of both social security and fiscal policy. He said that the aim of social security is to guarantee the minimum income needed for subsistence, by redistributing national income; the aim of fiscal policy is to stabilize the economy at the level of full employment by increasing the propensity to consume. The witness argued that a financial system based on the tripartite scheme of contributions would be incompatible with these aims.

The Tripartite Scheme of Contributions

The witness pointed out that the tripartite scheme of contributions is based on the insurance principle which assumes a permanent state of full employment. He considered that such a scheme would be very difficult to extend to some of the important sectors of our economy. Further, in his opinion, such a scheme would not ensure a desirable redistribution of national income, because the burden of cost would fall most heavily on employees.

The employee contribution would fall directly on employees as a kind of income tax. The government contribution would be drawn from income tax, which would fall on employees to a large extent. The payroll tax would fall initially on employers, but they would attempt to shift the burden of their contribution.

The witness argued that in the capital goods industries, which play an increasingly greater role in our economy, employers would not be able to pass their tax on in the form of higher prices for their products, because the entrepreneurs who buy these products are primarily seeking sources of larger profits, and their demand for capital goods is very sensitive to changes in price. Instead of accepting the payroll tax and passing it on to the consumer, the employer in the capital goods industries would divert his resources to other sectors of the economy or even to other countries. If he did continue to produce capital goods, he would change the structure of production so as to employ less labour relative to other untaxed factors. The burden of the employers' tax would thus fall back on employees, either in unemployment or in lower wages.

In the consumer goods industries, the witness argued that the employers' tax might be passed on temporarily to consumers, because the demand for these goods is fixed by customary standards of living, and will not respond easily to changes in price. In the long run, however, the fact that the employers' tax could be passed on in consumer goods industries would attract producers from the less profitable capital goods industries, the supply of consumer goods would increase, and prices would go down to their former level, thus shifting the payroll tax back to employers. In this situation, production would decrease and so would the demand for labour. Ultimately the burden of the payroll tax in the consumer goods, as in the capital goods industries, would fall back on employees.

In the export industries, the witness considered that a payroll tax would put Canadian producers at a disadvantage relative to foreign competitors.

Deferred Equity Financing

The witness pointed out that the deferred equity approach to financing social security has definite limitations. The collection of actuarial level premiums, which would produce for long periods far more revenue than would be currently required, would be deflationary. If the government were to invest the reserve fund in the private economy, it would compete with private savings. If the fund were invested in government securities, it would be used to meet current expenditures. The obligations of the government, deposited in exchange, would not represent actual assets, but merely future commitments which would have to be met by future taxes. Thus, in the opinion of the witness, the fund would become a fiction. When the pension program matured and full scale benefits were being paid, the government would have to revert to a pay-as-you-go approach.

General Taxation and the Social Security Tax

The witness suggested that the major part of the cost of old age security should be met by a special social security tax on disposable income; the remainder should be met from general revenue.

The social security tax would transfer the burden of the cost of old age security from general taxation to a special tax earmarked for old age pensions. The witness considered that exemptions should be lower than in the case of income tax. At the same time, there should be a reduction of the income tax rate in order that overall taxes should not be increased. The social security tax would provide the greater part of revenue for ald age security purposes; the remainder might come from general taxation but there would be no need to maintain a strict balance between income and expenditure, and deficit financing should be used whenever necessary.

The advantage of a social security tax in the opinion of the witness is that people become conscious of paying for the benefits they receive, and come to look upon these benefits as a right rather than as charity. A social security tax might have the effect of discouraging unreasonable demands to increase benefits. The tax might be graduated or proportionate; the best form would be that which did not impair economic incentives. A graded tax on corporations might also be used, provided that it did not discourage incentive. An extension of the sales tax, however, would be undesirable because it would be regressive and would reduce the propensity to consume. Also, since it would be invisible, it would fail to establish any conscious relationship between contributions and benefits.

Development of a Social Security System

The witness was mainly concerned with methods of finance, and had not considered the benefits to be paid under an old age security program. He argued that the extent of the outlay should depend on the capacity of the country to carry the burden of cost. Some formula might be worked out to adjust pension rates with changes in the cost of living.

The witness argued that development of the social security system should be gradual and progressive. The system should not be regarded as fixed and static, but should always be flexible so that it can vary with fluctuations in the economy.

Dr. L. C. Marsh

The submission was based on the Social Security Report, prepared by Dr. Marsh in 1943. He argued that provision for the aged is but one part of a comprehensive inter-related program of social security and therefore should be considered only in relation to protection against other universal risks, such as sickness, disability, widowhood, and death. One way or another, in Dr. Marsh's opinion, Canada is committed to providing maintenance during old age for a large and increasing proportion of the population. An organized social security program is an alternative to other less adequate, but still costly, ways of providing assistance to persons in need.

Dr. Marsh recommended universal contributory retirement pensions as part of an overall social security plan, based on the principle of flat rate contributions and benefits, and providing a minimum basic pension for men at 65 and women at 60 years of age. He suggested a bonus for deferred retirement, and provision for disability pensions at an earlier age. Administration would be national, with simple records and adequate machinery for adjudication of appeals. The resources of provincial and local welfare departments and social agencies would, under such a program, be released for supplementary aid and other services.

The possibility of achieving old age security by extending the existing pensions program was rejected by Dr. Marsh on the grounds that it is not suitable for extension to larger and larger numbers of people and that, even if further liberalized, the means test would retain the stigma of charity, and

would penalize thrift and encourage subterfuge. He also pointed out that the pension rate has not been based on an adequate minimum standard. The existing program might, however, be improved and continued as a residual program for those who fail to qualify for insurance benefits.

Dr. Marsh also rejected industrial pension plans as the major program of old age security. He pointed out that, although the number of these schemes has increased, coverage is by no means comprehensive, the unskilled and poorly organized are in a weak position, and farmers and others engaged in non-industrial pursuits do not benefit. Dr. Marsh mentioned the added dangers of intensifying the reluctance of employers to hire older workers, and of limiting considerably the mobility of labour. He said that industrial and commercial schemes have an important function in supplementing a basic general pension, but should not be expected to provide a self-sufficient substitute

Uniform Basic Rate of Pension

The basic pension recommended by Dr. Marsh should be a nucleus amount, available for everyone regardless of other resources, and capable of supplementation in a variety of ways. Private insurance, annuities, industrial pensions and individual savings could all be added to the basic pension, and there would be no restriction on other earnings of a beneficiary who had retired from normal employment.

The actual amount of the basic pension should be set after a minimum maintenance standard has been determined. It would not be possible to equalize all differences of living standards through social security benefits alone, but a comprehensive social insurance system could stress universality and broad equality of benefit rights.

Advantages of a Flat Rate and Contributory Scheme

In the opinion of Dr. Marsh, the flat rate benefit and contributory scheme can provide a uniform basic pension with least administrative difficulty. Experience indicates that the advantages of graded retirement benefits, scaled according to wage rates or differential contributions, are more than offset by heavy administrative costs which, under a flat rate scheme, could be released for benefits. Moreover, it is very difficult to achieve adequate coverage under a graded scheme which sets up income and employment categories.

Dr. Marsh argued that individual contributions would be an aid in raising funds for pension expenditure. They would lessen the danger of political objections to large disbursements from government funds. Also, they would be a form of organized thrift which gives contributors a unique interest in the program.

Bonus for Deferred Retirement

Dr. Marsh recommended that a bonus of $2 monthly for each year of deferred retirement, after 60 years for women and 65 for men, should be paid over and above the basic rate, as an incentive to continue employment and self-support as long as possible.

Earlier Eligibility for the Totally Disabled

Dr. Marsh proposed that for cases of total disability, contributory pensions should be included as part of the retirement program but should be paid at an earlier age. This provision would transfer from provincial and municipal authorities the present burden of assisting these unemployables.

Financing

A combination of individual contributions and general tax revenues was recommended by Dr. Marsh as an equitable compromise, in that flat rate assessment alone is regressive, whereas tax revenues draw from the upper income groups in graded relation to their capacity to pay.

Transitional Arrangements

Dr. Marsh suggested that the retirement pension program should aim to move rapidly towards universal coverage. Three alternative routes were described, but he pointed out that no method is free of difficulties or compromises. The method which would involve least administrative difficulty would be that of crediting contributions for older persons, on the assumption that if the contributory scheme had been in operation, the contributions would acually have been paid.

Dr. Charlotte Whitton, C.B.E.

Dr. Whitton distinguished between two major methods of providing income security in old age; fiscal payments and welfare services. The witness said that she did not propose to discuss fiscal payments at any length, but she pointed out that if they were used, they should be described clearly for what they were and should be made visible through a stipulated specific tax. If fiscal payments were used, they would have to be supplemented by a residual assistance program at the provincial, municipal or voluntary level.

The witness said that fiscal payments might consist of direct flat-rate benefits for all persons who have reached a given age, or they might consist of retirement benefits paid through some contributory prepayment plan. In the opinion of the witness, a contributory scheme would be complicated, costly, and difficult to introduce. It would tend to restrict labour mobility and to prejudice the hiring of older workers. She drew attention to experience in other countries which shows the inadequacy of contributory benefits during periods of shifting currencies, and the danger of creating uncontrollable future liabilities. The witness pointed out that the whole principle of contributory social insurance is now under "serious examination and grave questioning", and that Canada should hesitate before committing herself to any "illusory scheme of contributory social aid".

In the opinion of Dr. Whitton, a more satisfactory approach to the needs of the aged would be the provision of welfare services which are concerned with actual human needs, and which will continue to be necessary no matter what form of income maintenance program is developed. She placed major emphasis on the extension of health services, particularly the development of geriatric clinics, on the provision of adequate housing for the aged in all parts of Canada, and on the development of training and placement programs to ensure their employment, wherever possible. The witness recommended the continuation of allowances on a means test basis, with upward adjustment in the amount of allowable income and the introduction of provisional allowances pending proof of eligibility.

Health Services for the Aged

Dr. Whitton recommended the institution of geriatric grants under the National Health Grant Program to be used for further training in geriatrics and for the establishment and extension of geriatric clinics and units. These clinics, developed with public and voluntary funds would provide, in addition to treatment services, a flexible, though reliable, means of permitting payment

of allowances not only to the aged at a statutory minimum age but also at an earlier age for those with completely disabling or non-remedial conditions. This would offset the difficulties inherent in an automatic chronological retirement age, premature for the physically fit and greatly deferred for the handicapped and infirm. Visiting medical and nursing services might be used to provide domiciliary care for aged persons living in private homes. The witness suggested federal aid could be provided to meet the capital costs of these services, with the province and the municipality paying maintenance costs.

Shelter for the Aged

The witness proposed that a federal-provincial-municipal plan on the lines of the national Health Grant Program be developed for the construction of small home-like housing units accommodating not more than 50 persons, with arrangements for single persons and married couples. Provision should be made for separate rooms with light-housekeeping facilities, and for common dining, reading and recreation rooms, and for clinics to supplement the geriatric clinics. In urban centres the recreation and clinical facilities should be available to aged persons living in private homes. She said that the Central Mortgage and Housing Corporation should also be requested to include units and facilities for the aged in their community housing projects. Mobile canteen services could be organized by local communities to provide one hot meal a day for aged persons in their own homes, thus reducing the numbers requiring institutional care.

Placement Services and Re-training

Because Canada, like other countries, faces the economic consequences of an ageing population, the witness argued that all persons physically able to work should be encouraged to continue in employment as long as possible.

Re-training grants, the resources already organized for the training and re-training of veterans, and the facilities of the public employment service, should be used to ensure the gainful occupation of mature and older workers. These, like health services, could be achieved through federal, provincial and local co-operation, without constitutional change.

Revision of Existing Program

Dr. Whitton proposed that the margin of allowable income under the present old age pensions program should be increased to permit outside earnings up to a maximum of $20 monthly. In order to avoid hardships, new applicants for old age pensions should be granted provisional allowances for a period of three to six months pending proof of eligibility for pension. Over-payments could be recovered from subsequent allowances and false applications penalized.

The Self-Supporting Aged

The witness suggested that the present Government Annuities Act might be amended, extending the present limit of annuities from $1,200 to $1,800. The health, housing and training services should be made available not only to those in receipt of maintenance allowances but to the aged and ageing generally.

CHAPTER VI

FINANCIAL ASPECTS OF OLD AGE SECURITY

The Committee spent considerable time studying the financial aspects of various old age income security programs. Expenditures under the existing program and cost estimates for different types of proposed programs were reviewed. In addition, data were presented on present tax revenues, together with the possible yields from various additional or enlarged taxes.

1. COST UNDER EXISTING SYSTEM

For the fiscal year 1948-49, the federal share of the cost of old age pensions was \$64·2 million, while the provincial share was estimated at \$21·4 million. However, with the amendments of 1949, the cost rose substantially, with the result that federal expenditures were \$89·7 million in 1949-50, with provincial expenditures estimated at \$29·9 million. For the current fiscal year (1950-51) expenditures on old age pensions, federal and provincial, will come close to \$136 million, of which the federal share will be around \$100 million.

2. ESTIMATED COST OF DIFFERENT TYPES OF PENSIONS

The Committee obtained estimates of the cost of providing old age pensions of various amounts at different ages under a number of plans of old age income security. Information relating to the estimated cost for three basic types of plans—a universal pension, a means test pension, and a contributory insurance scheme with benefits related to contributions—is summarized below.

Universal Pensions

Table III (see following page) sets out for the years 1951, 1961 and 1971 the estimated cost of providing, to all persons in various older age groups, pensions of \$30, \$40, \$50, \$60 and \$100 monthly.

Means Test Pensions

It is difficult to forecast the cost of any proposed means test program since it is not possible to predict the proportion of aged persons who would apply for the pension under any given income test. Obviously, as the amount of outside income allowed under a means test scheme is increased, the number of eligible pensioners is also increased, and the cost rises correspondingly.

The distribution of the incomes of persons in the older age groups is such that relaxation of the income qualification does not have to be carried very far before a very high proportion of the population becomes eligible for pension. The higher the income ceilings for purposes of eligibility, the closer the cost of means test pensions approaches that of universal pensions.

TABLE III

ESTIMATED ANNUAL COSTS OF PENSIONS PAYABLE WITHOUT MEANS TEST TO VARIOUS OLDER AGE GROUPS IN AMOUNTS OF $30, $40, $50, $60 AND $100 MONTHLY, 1951, 1961, 1971

Age Group	Year	Number of Persons in Age Group	Annual Cost of Monthly Pensions of				
			$30	$40	$50	$60	$100
			$	$	$	$	$
70 and over, both sexes	1951	674,500	242,820,000	323,760,000	404,700,000	485,640,000	809,400,000
	1961	869,300	312,948,000	417,264,000	521,580,000	625,896,000	1,043,160,000
	1971	1,042,100	345,156,000	500,208,000	625,260,000	750,312,000	1,250,520,000
Male 70 and over, plus female 65 and over	1951	877,100	351,756,000	421,008,000	526,260,000	631,512,000	1,052,520,000
	1961	1,119,300	402,948,000	537,264,000	671,580,000	805,986,000	1,343,160,000
	1971	1,337,300	481,428,000	641,904,000	802,380,000	962,856,000	1,604,760,000
65 and over, both sexes	1951	1,101,400	396,504,000	528,672,000	660,840,000	793,008,000	1,321,680,000
	1961	1,372,500	494,100,000	658,800,000	823,500,000	988,200,000	1,647,000,000
	1971	1,630,000	586,800,000	782,400,000	978,000,000	1,173,600,000	1,956,000,000
Male 65 and over, plus female 60 and over	1951	1,354,100	487,476,000	649,968,000	812,460,000	974,952,000	1,624,920,000
	1961	1,667,700	600,372,000	800,496,000	1,000,620,000	1,200,744,000	2,001,240,000
	1971	1,998,000	719,280,000	959,040,000	1,198,800,000	1,438,560,000	2,397,600,000
60 and over, both sexes	1961	1,631,900	587,484,000	783,312,000	979,140,000	1,174,968,000	1,958,280,000
	1961	1,969,700	709,092,000	945,456,000	1,181,820,000	1,418,184,000	2,363,640,000
	1971	2,366,900	852,084,000	1,136,112,000	1,420,140,000	1,704,168,000	2,840,280,000

Under the present means test program with a maximum pension of $40 a month, 43·1 per cent of all persons in Canada 70 years of age and over are in receipt of pension. The Committee was provided with estimates showing that if the same test were applied about one-third of the persons in the age group 65 to 69 might qualify for means test pension. The total cost on this basis would be in the neighbourhood of $64 million annually.

Contributory Insurance Plan

Under the insurance approach the pensioner accumulates a right to his pension, which may be on a graduated or flat rate basis, by making contributions through the payment of premiums during his working life. Table IV provides data on the monthly pension purchasable at ages 65 and 70 by the payment of a premium of $1 monthly; also, the monthly premium required for the purchase of an annuity of $40 monthly at ages 65 and 70. Table V sets out corresponding rates for survivors' benefits.

The data in Tables IV and V are indicative of what the costs (as a percentage of income) of a contributory plan might be under the deferred equity approach. Under such a plan, the premium might be divided among the insured, his employer, if any, and the government, or any combination of these three factors.

3. TAX REVENUES OF THE FEDERAL GOVERNMENT

The Committee reviewed the preliminary estimates of the tax revenues of the federal government for the fiscal year 1949-50, as well as the revenues forecast for the fiscal year 1950-51. These revenues are set out in some detail in Table VI.

TABLE IV

MONTHLY PENSIONS PURCHASABLE AT AGES 65 AND 70 BY $1 PAYABLE MONTHLY AND MONTHLY PREMIUMS FOR PENSION OF $40 MONTHLY AT AGE 65 AND 70, MALES ONLY

Age at Which Premiums Commence	Monthly *Pension*, Purchasable by Premiums of $1 Monthly, Payable at		Monthly *Premium* for Pension of $40 Monthly Payable at	
	Age 65	Age 70	Age 65	Age 70
	Plan A—No return of premiums if contributor dies before pension is first payable.			
20	$10.71	$17.76	$ 3.74	$ 2.25
30	6.72	11.36	5.95	3.52
40	3.86	6.79	10.35	5.89
50	1.86	3.58	21.52	11.18
60	0.49	1.39	81.66	28.87
	Plan B—Premiums returned if contributor dies before pension is first payable. Plan B rates are identical with Government Annuity rates.			
20	$ 8.09	$11.74	$ 4.94	$ 3.41
30	5.27	7.86	7.58	5.09
40	3.18	4.96	12.58	8.06
50	1.62	2.81	24.62	14.26
60	0.46	1.20	86.26	33.41

Interest Rate Used—three per cent.
Administrative Costs—no loading.
Mortality Rate—Mortality of Annuitants 1900–1920, a(f) and a(m), with a reduction of three years in age.

TABLE V

SURVIVORS' PENSIONS PURCHASABLE AT MALE AGE 65 AND 70 BY $1 PAYABLE MONTHLY AND MONTHLY PREMIUMS FOR SURVIVORS' PENSION OF $40 MONTHLY AT MALE AGE 65 AND 70

(In all cases it is assumed that the wife is five years younger)

Age of Male When Premiums Commence	Monthly *Pension* Purchasable by Premium of $1 Monthly Payable at		Monthly *Premium* for Pension of $40 Monthly Payable at	
	Male Age 65	Male Age 70	Male Age 65	Male Age 70
20	$ 7.94	$12.41	$ 5.04	$ 3.22
30	5.02	7.99	7.97	5.00
40	2.92	4.82	13.72	8.30
50	1.42	2.57	28.10	15.55
60	.39	1.02	103.73	39.19

NOTE:—On the prior death of the male after the pension is to begin i.e. after age 65 (70), the pension to the surviving wife to be reduced by one-half.

On the prior death of the male before the pension is to begin i.e. before age 65 (70), one-half the full pension is to be paid to the surviving wife when she reaches age 65 (70).

Interest Rate used—three per cent.

Administrative Costs—no loading.

Mortality Rates—Mortality of annuitants 1900–1920, a(f) and a(m), with a reduction of three years in age.

TABLE VI

TAX REVENUES OF FEDERAL GOVERNMENT, 1949–50, 1950–51

Tax	1949–50 Preliminary	1950–51 Forecast
	In Millions of Dollars	
I. *Direct Taxes*—		
(a) Income Tax—		
(i) Individuals	611·5	530·0
(ii) Corporations	586·5	580·0
(iii) Interest, dividends, etc	45·5	46·0
(b) Excess Profits Tax	− 2·5	—
(c) Succession Duties	28·5	29·0
Total, Direct Taxes	1,269·5	1,185·0
II. *Indirect Taxes*—		
(a) Customs Import Duties	229·0	225·0
(b) Excise Duties—		
(i) Alcoholic Beverages	104·5	102·0
(ii) Tobacco Products	114·0	114·0
Less Refunds	− 3·0	− 3·0
(iii) Net Excise Duties	215·5	213·0
(c) Sales Tax (net)	404·1	400·0
(d) Other Excise Taxes—		
(i) Tobacco Products	83·4	83·5
(ii) Automobiles, tires and tubes	34·2	35·0
(iii) Stamps	9·7	9·5
(iv) Cigarette Papers and tubes	7·1	7·0
(v) Jewellery, ornaments	4·3	4·5
(vi) Other	25·2	13·5
(vii) Total, Other Excise Taxes	163·9	153·0
(e) Miscellaneous Taxes	4·0	4·0
(f) Total, Indirect Taxes	1,016·5	995·0
III. *Total Tax Revenue*	2,286·0	2,180·0

4. ADDITIONAL TAX REVENUES

The Committee requested the Department of Finance to furnish information respecting various types of tax yields which would enable it to consider possible means of financing any additional provision for old age security. This information is summarized below. All the estimates given assume a continuation of present levels of employment and income.

Levies on Personal Income

(*a*) *Lowering of Exemptions Only.* If the 1950 personal income tax rates were to be maintained, and if exemptions were to be lowered to $750 for single persons, $1,500 for married persons, $100 for family allowance dependents, and $300 for other dependents, it is estimated that there would result $160 million annually in new revenue, as follows:

—$138 million from current taxpayers, and
—$ 22 million from 750,000 new taxpayers.

If, under present rates, the exemptions were lowered to $500 for single persons, $1,000 for married persons, $75 for family allowance dependents, and $200 for other dependents, the additional yield is estimated at $365 million, as follows:

—$281 million from current taxpayers, and
—$ 84 million from 1,300,000 new taxpayers.

(*b*) *Surcharge on Existing Personal Income Tax.* It is estimated that each 5 per cent surtax on existing income tax liability, at 1950 rates, would produce an additional $29 million in revenue.

A ten per cent surtax would therefore produce on the same basis an additional $58 million.

(*c*) *Special Levy on Personal Income.* In Table VII there are shown the theoretical yields of a one per cent tax on personal income, subject to limitations of exemptions, exclusions and maxima, and assuming perfect collection.

These are theoretical yields. They assume perfect collection. They must therefore be used with care in attempting to forecast actual collections which are bound to be less than the theoretical yields. The difficulties of collection would be least with respect to wages and salaries and certain kinds of investment income which can be taxed more readily at the source. Conversely, the difficulties would be greatest with respect to the collection of tax on the incomes of the self-employed.

Similarly, experience has shown that the percentage of actual collection is likely to increase and relative collection costs to decline, the higher the level of exemptions or exclusions; this is because of the elimination of those with small earnings.

Subject to these qualifications, the foregoing table shows the theoretical yield of a one per cent tax on all personal incomes and on all personal incomes with certain exemptions and deductions, and also with certain "ceilings" on the tax payable by an individual within a year. The yield of a tax at a rate higher than one per cent may be calculated by multiplying these figures by the appropriate amount.

For example, the theoretical yield of a one per cent tax on all income, without exemption, exclusion or ceiling, as shown in the table, is $100 million. If an individual is not required to pay more than $25 annually, the theoretical yield falls to $81 million. Likewise, if an individual is not required to pay more than $50 annually, the theoretical yield falls to $92 million.

TABLE VII

THEORETICAL ANNUAL YIELD OF EACH ONE PER CENT TAX ON PERSONAL INCOME[1]

Base	Annual Yield: No Maximum Tax	Annual Yield: Maximum Annual Tax of $50	Annual Yield: Maximum Annual Tax of $25
	In Millions of Dollars		
I. All Income	100·0	92·3	81·3
II. *Deductible Exemptions*[2]			
(*a*) $500 for all persons	75·3	68·4	61·0
(*b*) $500 for single persons, $1,000 for married persons, and $100 for dependents	57·8	51·5	46·2
(*c*) $750 for single persons, $100 for dependents, and			
(i) $1,250 for married persons	48·3	42·3	37·8
(ii) $1,500 for married persons	43·9	38·1	34·0
III. *Exclusions*[3]			
(*a*) First $500	98·0	90·5	79·6
(*b*) First $1,000	90·1	82·7	72·0
(*c*) First $500 for single persons, $1,000 for married persons, and $100 for dependents	91·6	84·3	73·6
(*d*) First $750 for single persons, $100 for dependents, and			
(i) $1,250 for married persons	86·7	79·4	68·7
(ii) $1,500 for married persons	82·5	75·1	64·4

[1] It is estimated that $10 billion would come within the scope of the present tax law. This assumes that no tax is payable on family allowances, war pensions, unemployment insurance benefits and so on, and that relief for medical expenses, charitable donations, losses and so on would be allowed.

[2] The exemption amounts shown are not subject to the tax. A person with income of $1,200 pays tax on $700 when the exemption is $500.

[3] Persons with incomes under the excluded amounts pay no tax. Persons over the excluded amounts pay tax on their whole income (except for the "notch" provision). Thus, the person with income of $1,200 pays tax on $1,200 when the exclusion is $500 or $1,000.

A two per cent tax on all incomes without exemption, exclusion or ceiling would therefore have a theoretical yield of $200 million. Similarly, a two per cent tax on all incomes, subject to a deductible exemption of $750 for a single person, $1,500 for a married person and $100 for dependents, without ceiling, would be twice $43·9 million or $87·8 million.

The exclusion of individuals with incomes below certain levels results in smaller loss of revenues than a system of deductible exemptions, because all those who are not excluded from payment would be subject to the tax on their full incomes. Thus, using the same exclusions of $750 single, $1,500 married and $100 for dependents, the theoretical yield of a one per cent levy would, as shown above, be $82·5 million, and of a two per cent levy would be $165 million.

If a ceiling is applied, it is necessary, in calculating the theoretical yields, to raise the ceiling in the same proportion as the tax is raised. For example, a ceiling of $25 applied to the same exclusions as used above reduces the one per cent yield to $64·4 million. This figure of $64·4 million can only be doubled as the result of a two per cent tax by raising the ceiling to $50.

It must be emphasized again that all the figures given are theoretical. They are subject to downward adjustment for inevitable losses in collection.

Taxes on Corporations

It is estimated that corporation profits are approximately $1,850 million annually. (1) On this amount, the present federal income taxes of 10 per cent on the first $10,000 of taxable profits and 33 per cent on the remainder are expected to yield $590 million.

[1] About $600 million of which is dividends and forms part of $10,000 million used in Table VII. Thus the total of personal income and corporation profits is about $11,200 million, rather than $11,800 million.

(*a*) *Surtax.* A surtax of 5 per cent on the existing corporation profits tax would probably yield \$29·5 million annually, subject to the reservations noted below.

Any increase in taxes may in itself have an effect on corporate profits; also, there may be fluctuations in profits due to other causes. The calculations made here assume that profits continue at \$1,850 million annually.

(*b*) *Special Levy.* It is estimated that each one per cent special levy on corporate income would result in \$18·5 million additional revenue. In this case, as in the case of a surtax on corporate income, theoretical yields from rates higher than those given may be calculated by a simple process of multiplication.

Payroll Tax on Employers

Total wages and salaries paid, including employee contributions to social security, but excluding supplementary labour income such as employer contributions to pensions and to social security, are estimated by the Dominion Bureau of Statistics at \$7,300 million for the year 1949. One per cent of this total is approximately \$73 million. Two per cent of this would therefore be \$146 million, and so on. Wages and salaries paid to farm workers and domestic servants are included. To the extent that collections are not made from all employers, the actual yield would be below these figures.

Sales Tax

The existing sales tax of 8 per cent is estimated to yield \$400 million in 1950-51. The estimates for additional yields set out below assume no change in levels of consumption. Changes may result, however, either from these additional taxes or from other factors.

(*a*) *Increase in Existing Tax Rate.* Each one per cent increase in the existing sales tax would probably yield an additional \$50 million annually.

(*b*) *Taxing Additional Items.* If the six major classes of goods not now taxed were subject to the existing tax of 8 per cent, the yield would probably increase by \$300 million, bringing the total yield to \$700 million.

The six classes of goods now excluded are foodstuffs (except for a few items), fuel (including electricity), building materials (except for a few items), machinery used directly in the manufacture of goods, farm machinery, and a wide range of goods of minor importance. All purchases by public hospitals and certain charitable institutions are exempt from sales tax.

CHAPTER VII

CONSTITUTIONAL ASPECTS OF A FEDERAL OLD AGE PENSION PROGRAM

The Deputy Minister of Justice appeared before the Committee to give evidence on constitutional questions relating to old age pensions.

In the opinion of the witness, legislation providing a universal non means test unconditional flat rate pension financed from general revenue could be enacted within the authority of Parliament, since it would be merely an appropriation of public money to be distributed for a particular purpose.

On the other hand, apart from unemployment insurance for which Parliament was given power to enact legislation by an amendment of the British North America Act in 1940, Parliament has not the power to enact legislation to establish an insurance scheme in which contributions are required by employees, employers and the federal government, and where the amount of pension payable to any individual is related to the contributions made by or on his behalf.

Between these two extremes of payments from general revenue and an insurance scheme, there is a range of possibilities where, in the view of the witness, constitutionality cannot be determined until a specific proposal is set out in a bill. It is not clear, for example, whether it would be within the power of Parliament to pass an Act under which special taxes would be earmarked for paying old age pensions, even though the pensions might not be related in any way to previous payments of the tax. The validity of such a scheme would, according to the evidence presented, depend upon whether or not there was a complete disjunction of the compulsory taxation measure and the pension payments. Unless it were clearly evident that the taxes would not be borne directly and solely by those who would ultimately be pensioned, the necessary disjunction would not be complete and there would always be the possibility of the courts holding the plan to be a compulsory insurance act and, hence, invalid. For illustration, if the earmarked tax were a customs duty, the decision of the courts might be different from the decision if it were an income tax; there might appear to be a less direct relationship between payment of benefits and customs duties than between payment of benefits and income tax.

In giving his views on the constitutionality of a pension plan financed in any way other than from general revenue, the witness stated that he was influenced in large measure by the 1937 judgment of the Privy Council on the validity of the Employment and Social Insurance Act of 1935. In this judgment, Lord Atkin, while observing that the federal government may, under its existing powers, impose taxation for the purpose of creating a fund for special purposes and may raise money by any mode or system of taxation, went on to state as follows: "But assuming that the Dominion has collected by means of taxation a fund, it by no means follows that any legislation which disposes of it is necessarily within Dominion competence . . . In other words, Dominion legislation, even though it deals with Dominion property, may yet be so framed as to invade civil rights within the Province, or encroach upon the classes of

subjects which are reserved to Provincial competence. It is not necessary that it should be a colourable device, or a pretence. If on the true view of the legislation it is found that in reality in pith and substance the legislation invades civil rights within the Province, or in respect of other classes of subjects otherwise encroaches upon the provincial field, the legislation will be invalid . . . An insurance Act affecting the civil rights of employers and employed in each Province. . . is invalid."

In answer to a question, the witness expressed the opinion that an agreement between the federal and provincial governments would not confer upon Parliament the authority to enact legislation which could not otherwise be enacted under the constitution. He further stated that pension schemes within the legislative competence of Parliament would not require agreements with the provinces, although agreements might be entered into for the administration of such schemes.

CHAPTER VIII

RELATIONSHIP OF OLD AGE SECURITY TO OTHER FEDERAL PROGRAMS

Evidence was presented to the Committee on the possible relation of an old age security scheme to various existing federal government programs including War Veterans Allowances, Unemployment Insurance, Canadian Government Annuities, and the National Housing Act.

1. War Veterans Allowances and Old Age Pensions

At the present time old age pensions and war veterans allowances are mutually exclusive; one may not be supplemented by the other. In general, according to the evidence presented, veterans seem to prefer the allowance to the pension, even when in individual cases the allowance may be somewhat smaller. The reason for this appears to be that veterans feel they have earned the allowance whereas the pension is looked upon as state charity.

Witnesses from the Department of Veterans Affairs pointed out that war veterans allowances are in some ways more favourable than old age pensions: for example, allowances are payable at an age 10 years earlier than old age pensions, and allowance recipients are entitled to hospitalization and medical care, whereas these services are not provided automatically or uniformly for all old age pensioners. The Chairman of the War Veterans Allowances Board expressed a personal view that, because of the advantages under War Veterans Allowances, some veterans might prefer the prospect of these allowances to anticipated benefits under a general old age retirement scheme for which contributions would be necessary.

2. Integration of a Contributory Old Age Pensions Scheme with Unemployment Insurance

The Deputy Minister of Labour was asked to outline to the Committee the manner in which the administration of unemployment insurance might be extended to include the operation of an old age insurance scheme. The witness indicated his belief that the Canadian people favour the insurance principle in social security and argued that the linking of the administration of an old age insurance scheme with unemployment insurance could be achieved in Canada as it has been achieved in Great Britain.

The witness suggested that the objective of a new old age pension plan should be universal benefits and universal contributions; that only a small reserve would be necessary for the old age section as compared with the unemployment section of the program; and that there is a certain value in having people make direct contributions rather than having benefits payable from general taxes, since the participant realizes in this way that his benefits are related to his contributions.

The witness proposed that as a good start toward a contributory plan, unemployment insurance administrative facilities might be expanded to include a

retirement insurance program with the same coverage which exists at present for the risk of unemployment. The self-employed might be required to purchase government annuities in the same amount as the old age pension (this proposal is discussed in detail in the next section of this Chapter). A means test pension would be required for a limited number of persons who had not made contributions or purchased these annuities.

As unemployment insurance was extended in coverage, the witness believed that the same extension would hold for old age insurance. If the government were to provide universal benefits prior to that time, contributions would be payable by one sector of the community while benefits would be available to all. However, as long as contributions were low the witness considered that there would probably be no objections to this situation.

The extension of coverage to such groups as farm-workers, fishermen and the self-employed, would raise certain difficulties but the witness did not consider these to be insurmountable. He suggested that universal coverage could best be achieved over a period of years, but that if an act were passed requiring contributions from everyone, it could, if necessary, be put into effect within six months or a year.

The witness further suggested that there are obvious advantages in having only one administrative body for old age pensions and unemployment insurance, since the administrative costs would be less than for two separate plans. In this connection he pointed out that the Unemployment Insurance Commission and the National Employment Service already have 250 branch offices in Canada. The witness considered that there would be an advantage in having collections made by the Unemployment Insurance Commission rather than by the Department of National Revenue, in that the attention of the contributor would be called more forcibly to the purpose of the contribution. Individual contribution records would have to be kept, but these would not need to be unduly complex; only the fact of contribution would have to be recorded for eligibility purposes.

Estimates were presented on the cost of collecting contributions and of maintaining individual records under a combined old age and unemployment insurance program with universal coverage. The annual cost of collecting contributions would be about $5·7 million, or a little over one dollar per person in the labour force. In addition the annual cost of maintaining records was estimated at $5 million. Thus the total cost of collecting contributions and of maintaining records under universal coverage for both old age and unemployment insurance might amount to $10·7 million.[1] No estimates were submitted on costs of verification of claims, adjudication of claims or payment of benefits.

3. Canadian Government Annuities in Relation to An Old Age Security Program

The Deputy Minister of Labour was asked to outline to the Committee the way in which the Government Annuities Act might be utilized in relation to an old age insurance program. He suggested that, for the self-employed and others not protected against the contingencies of old age under an old age insurance program linked with unemployment insurance, it might be possible to extend the Government Annuities Act so that such persons would be required to purchase a government annuity in the amount of the old age pension. Since, for those persons coming under the insurance part of the plan, there would be contributions from employers, employees and the federal treasury, the self-

[1] The cost of collection for unemployment insurance under its present coverage is $2,716,000; the present cost of maintaining records is estimated at $2,505,000: a total of $5,221,000 for these two items.

employed purchasing government annuities would be at a disadvantage in terms of cost. He therefore suggested that a more equitable situation would result if the cost of annuities were reduced for the self-employed. If they were to pay 80 per cent of the cost of the specified pension they would be in the position of paying an amount roughly equivalent to the employee and employer share under the suggested insurance program.

The witness expressed the opinion that, since less than 300,000 persons have taken advantage of the opportunity of purchasing government annuities in the 42 years since they became available, some degree of compulsion or additional encouragement would probably be necessary to extend participation further.

If there were a plan for the payment of $40 a month at age 70 it would be possible, in his opinion, to issue a new type of annuity which would commence with a specified amount at age 65 and would be reduced at age 70 by the amount of the old age pension. However, he added that it might be difficult to work out such an annuity if it had a guaranteed period, especially if the guaranteed period extended beyond age 70.

4. The National Housing Act in Relation to An Old Age Security Program

The Committee asked the Central Mortgage and Housing Corporation to submit a memorandum on the possible uses of National Housing Act facilities in connection with housing for aged persons. The memorandum is based on the assumption that to meet the need of aged persons there is required a supply of housing reserved exclusively for them, designed to meet their physical needs and carrying a rental, either economic or subsidized, which is within their ability to pay.

Section 9 of the National Housing Act permits loans by the Corporation to limited dividend companies in amounts up to 90 per cent of the lending value of the housing project. Interest on such loans is at three per cent per annum and repayment may be made over a period as long as fifty years. Housing so produced may be designated for lease to specific classes such as aged persons. This section has already been applied to provide housing for the aged in Burlington, Ontario, and in Vancouver, British Columbia.

Under Section 35 of the Act, low rental housing projects may be built, provided that an agreement is reached between the provincial and federal governments. The capital cost of such a project must be shared 25 per cent by the provincial government and 75 per cent by the federal government. Rental may be economic or subsidized; in the latter case the loss is shared by the two governments in the same ratio. British Columbia, Ontario, Quebec, New Brunswick and Newfoundland have passed legislation permitting their governments to enter into such agreements. There is no provision in this section for restricting low rental housing projects to any specific class such as aged persons. The memorandum stated that it is not known whether such restriction could be applied in practice, but that the possibility might be considered by provincial and federal governments. If rental projects carrying such restrictions were acceptable, they could be subsidized to an extent that would bring them within rental levels compatible with the income of old age pensioners.

CHAPTER IX

FINDINGS OF THE COMMITTEE

COMPLEX NATURE OF THE PROBLEM

1. The sum total of evidence placed before the Committee by provincial governments, representative organizations and individuals has been impressive in terms both of quantity and quality. It has served to high-light the intense complexity of the subject which was referred to the Committee for study. The evident fact is that the problem of providing security to the aged in our population is not a simple or clear-cut matter.

2. The nature of this problem can perhaps best be illustrated by pointing out in the first place that old age itself is very difficult, if not impossible, to define. We are dealing with a phenomenon, the ageing process, which is not the same for all individuals. Some persons become aged many years before others in the same community; others retain the physical capacity and ability to continue in productive employment for many years beyond what is normally considered the age for retirement. Regardless of the age which may be arbitrarily selected as normal for retirement, there are always certain individuals above that age who are capable of continuing as active members of the community; and there will likewise always be individuals below the age who will not be able to carry on in the normal way as self-supporting members of society.

INCREASE OF AGEING POPULATION

3. The Committee has also in its deliberations been faced with the fact that regardless of the age which may be selected as normal for retirement, the magnitude of the problem and the numbers of persons in the population above the selected age do not remain static. Due to improved health services and the consequent increase in the longevity of our population, along with other factors, our aged population is growing from year to year.

4. In 1931 the average life expectancy for new-born males was 60 years and for females 62·1 years. The total population of Canada over the age of 65 was 576,000, representing one in every eighteen of the total population. Since then the average life expectancy of new-born males and females has risen to 65·18 years and 69·05 years respectively (1947 figures). Combined with increased longevity was a decline in the birth rate, since reversed, which has contributed to a higher proportion of population in the advanced age brackets. The total of persons 65 or over in 1951 will number approximately 1,101,400, or one in every thirteen of our population. This trend towards an ageing population may reasonably be expected to continue through the decades ahead. It is estimated that in 1961 the population 65 and over will approximate 1,372,500, and in 1971 it will rise to 1,630,000.

5. The estimated future increases in population at different age levels, and the costs of providing universal pensions to such persons at different rates, are set forth in the following table taken from the evidence:

65170—8½

TABLE VIII

ESTIMATED ANNUAL COSTS OF PENSIONS PAYABLE WITHOUT MEANS TEST TO VARIOUS OLDER AGE GROUPS IN AMOUNTS OF $30, $40, $50, $60 AND $100 MONTHLY, 1951, 1961, 1971

Age Group	Year	Number of Persons in Age Group	Annual Cost of Monthly Pensions of				
			$30	$40	$50	$60	$100
			$	$	$	$	$
70 and over, both sexes	1951	674,500	242,820,000	323,760,000	404,700,000	485,640,000	809,400,000
	1961	869,300	312,948,000	417,264,000	521,580,000	625,896,000	1,043,160,000
	1971	1,042,100	345,156,000	500,208,000	625,260,000	750,312,000	1,250,520,000
Male 70 and over, plus female 65 and over	1951	877,100	351,756,000	421,008,000	526,260,000	631,512,000	1,052,520,000
	1961	1,119,300	402,948,000	537,264,000	671,580,000	805,986,000	1,343,160,000
	1971	1,337,300	481,428,000	641,904,000	802,380,000	962,856,000	1,604,760,000
65 and over, both sexes	1951	1,101,400	396,504,000	528,672,000	660,840,000	793,008,000	1,321,680,000
	1961	1,372,500	494,100,000	658,800,000	823,500,000	988,200,000	1,647,000,000
	1971	1,630,000	586,800,000	782,400,000	978,000,000	1,173,600,000	1,956,000,000
Male 65 and over, plus female 60 and over	1951	1,354,100	487,476,000	649,968,000	812,460,000	974,952,000	1,624,920,000
	1961	1,667,700	600,372,000	800,496,000	1,000,620,000	1,200,744,000	2,001,240,000
	1971	1,998,000	719,280,000	959,040,000	1,198,800,000	1,438,560,000	2,397,600,000
60 and over, both sexes	1951	1,631,900	587,484,000	783,312,000	979,140,000	1,174,968,000	1,958,280,000
	1961	1,969,700	709,092,000	945,456,000	1,181,820,000	1,418,184,000	2,363,640,000
	1971	2,366,900	852,084,000	1,136,112,000	1,420,140,000	1,704,168,000	2,840,280,000

Later Ages of Retirement

6. As large numbers of persons reach what may, under present circumstances, be considered the normal ages of retirement, and as they find themselves in better health, it may be expected that they will show increasing reluctance to accept the inevitability of retirement at such ages. It is in the interests of the individuals themselves and of the country as a whole that we should re-think our attitude towards continued gainful occupation of these older age groups.

7. The Committee believes that increasing emphasis should be placed on efforts to remove from people's minds the idea that there is any set or accepted age for retirement. Each individual in the nation's population should be encouraged to continue as long as possible in gainful employment.

8. Not only is this a matter of importance to individuals themselves in terms of their health and mental outlook, but it is of even greater importance to the over-all economy of the country. Surely a country like Canada, with a wealth of natural resources still in large part undeveloped, is justified in having profound faith in its economic future. If we are to develop these resources adequately, we shall need to retain in active undertakings the largest possible number of our nation's population. The Committee believes that, in the years ahead, our economic progress and prosperity will depend in significant measure on the success of efforts made to utilize to the fullest possible advantage the mature skills of these older workers.

Premature Ageing and Invalidity

9. The reverse of the problem of retaining older workers in the labour market is that presented by the prematurely aged and invalids who are obliged to retire from employment before their normal time. The Committee has been deeply impressed by the evidence presented as to the position in which invalids and incurables find themselves at present. It has also received representations from organizations representing the blind, and blindness is, of course, part of the total problem of invalidity. The Committee has felt, however, that the terms of reference established for it ruled out the possibility of a detailed examination of this problem as it applies to the younger age group.

SOCIAL NEEDS OF THE AGED

10. The Committee has also been faced with an impressive volume of evidence which demonstrates that old age security does not consist solely of the assurance of adequate cash income to individuals in their later years. It is important to keep in mind that income security, while an important element in the total program, is not by any means the entire answer. Adequate housing, health and welfare services, the availability of suitable part-time occupations for the aged—all these factors enter into the complex picture of the needs of this important section of the nation's population.

Continued Employment of Older Workers

11. Much is already being done along these lines,—for example, the efforts made by the National Employment Service of Canada to encourage the continued employment of older workers on a full or part-time basis. Much more, however, needs to be done in terms of persuading employers and governments to keep open the doors of employment opportunity to individuals who are in their middle or

later years, so that each individual with the capacity for useful and productive employment will be afforded equal opportunity to contribute his or her share to national production and to national well-being.

Health Programs

12. With regard to medical and health programs for the aged members of the population, the Committee has noted the extent to which some of the provinces have developed well-organized programs in this field. These undertakings, the Committee feels, should be encouraged and further developed, particularly in those provinces which have not yet undertaken special programs to meet the health needs of the aged. Any lessening of the burden on the provinces of providing income security for the aged may enable them to develop more adequate hospital and medical care services for this section of the population.

Housing Needs

13. The Committee has also considered the housing needs of the aged and the possibilities now open to private organizations, provincial and municipal authorities under amended provisions of the National Housing Act. It is the Committee's view that due to the comparative recency of these amendments full advantage has not yet been taken of the opportunities thus afforded. It considers that further exploratory work should be undertaken for the purpose of seeing how the machinery already in existence can be developed and further expanded in order to make possible a more adequate solution of this urgent aspect of the problem of old age security.

EMPLOYEE PENSION PLANS

14. Within recent years there has been a remarkable development of employee pension plans designed to provide a measure of old age security for the more fortunate section of the employed population that happens to be covered.

15. The efforts that have been made, particularly during the past few years, to provide retirement security for employees are worthy of commendation. Employee pension plans have already made a significant contribution to the provision of retirement security for an important section of the Canadian labour force.

16. The Committee has recognized in the course of its deliberations that it would be rendering a disservice to this important segment of the Canadian labour force if it were to consider any plan of governmental intervention which would have as one of its results, intended or otherwise, any diminution of the interest and concern currently being shown by employers in the provision of old age security for their employees.

17. It must be recognized, however, that present employee pension plans have a very uneven effect over the entire working force. Some groups of employees are covered adequately, some inadequately, others not at all. Furthermore the development of separate employee pension schemes tends to restrict the mobility of labour by tying the employee to a particular employer. To the extent that these plans differ one from the other, to the extent that prosperous industries can afford to provide them and others not, the result is to confuse and to complicate the over-all picture.

18. These difficulties are further intensified by the fact that to a certain degree the costs of these employee pension plans are, like higher wages, passed on to the consumer in added production costs, with the result that the entire population finds itself indirectly paying part of the cost of pensions for the more fortunate groups.

19. All this has made it imperative that the Committee should endeavour to see what kind of a scheme it could develop on a universal basis which, by its very simplicity, would make it possible for these industries to adjust their private pension plans so as to fit into governmental provisions, and would stimulate the development of new pension plans, particularly among smaller businesses.

20. The Committee feels that any plan to be considered should not interfere with employee pension plans, the purchase of governmental or private annuities, or private savings. Any scheme conceived under public auspices should be such as to place a floor under these private or collective provisions for retirement security; this would make possible the development under private initiative of supplemental programs which, taken together with governmental provisions, would result in more adequate retirement security for the largest possible number of Canadians.

21. While a simple basic scheme under governmental auspices should support and stimulate employee pension plans, there is also room for improvement in these private plans which would eliminate some of their inadequacies and complications. Some improvement has already been effected by the insistence of the income tax authorities upon certain minimum conditions as to vesting of pension rights in approved pension plans, but it is the Committee's view that further improvement could be effected, without imposing unnecessary hindrances on the development of private plans, by requiring, as a condition of income tax exemption, a greater degree of transferability of individual pensions rights.

GOVERNMENT ANNUITIES

22. It is also important that the provision of basic old age security should do nothing to weaken the incentive of the individual to provide through personal saving for his old age. Moreover, every facility should be offered to make it possible for the individual to make regular contributions for this purpose. The Committee reviewed the operations of government annuities and believes that their purchase should be encouraged and that the merits of this particular form of saving should be made more widely known by a suitable campaign of advertising and by other methods designed to facilitate their purchase.

OTHER CLAIMS TO PRIORITY

23. Finally, in its study of the old age security systems in effect in other countries, and in its consideration of the evidence presented by representative Canadian organizations and individuals, the Committee has had to keep constantly in mind the place of old age in an over-all social security program. While the terms of reference of the Committee have limited its study to the specific field of old age security, it has not felt it advisable to overlook the fact that there are other areas of social need in which governments, both provincial and federal, may be called upon to take in the future a substantial measure of responsibility.

24. Present expenditures on all forms of social security in Canada have already reached impressive proportions. Family allowances in 1950-51 will cost in excess of $300 million. Military pensions, war veterans allowances and other health and welfare services provided for ex-service personnel through the Department of Veterans Affairs total in excess of $150 million annually. Present expenditures on old age assistance, federal and provincial, will come close to $136 million in the current fiscal year. Unemployment insurance benefits in the fiscal year just closed were in excess of $85 million. In addition to these items of major importance, public expenditures on all levels of government for health and hospital care total close to $150 million annually; expenditures on workmen's compensation, provincial mothers' allowances and other provincial or local welfare services approximate $100 million annually. The total annual cost of health and welfare services to the people of Canada provided at public expense by all levels of government, can presently be estimated on a conservative basis at not less than $1 billion annually. This is an impressive total, and means the diversion of a not inconsiderable proportion of the national income into this important field of health and welfare services.

25. Nor has the Committee overlooked other social security programs which have been widely advocated, such as health insurance, invalidity pensions, etc. These are not, of course, matters which come within the Committee's terms of reference. Furthermore, the Committee has not been able to obtain precise data which would enable it to assess accurately the magnitude of the cost of programs of this nature. It has been estimated, however, that the over-all cost of a comprehensive system of health insurance would probably be not less than $300 million annually, although it must be added that a large proportion of such an amount would represent not a new burden on the people of Canada, but merely a rechannelling of existing expenditures on various forms of health care. So far as pensions for invalidity are concerned, an amount of the order of $40 to $50 million might be involved, depending on the details of the program and the nature of the eligibility test which might be applied.

26. These and other expenditures which are advocated from time to time represent substantial additions to the amounts which Canadians through their various governments are presently being called upon to provide for social security purposes. The Committee, having carefully examined these aspects of the problem, considers that it must avoid suggesting such a substantial diversion of the total national income into a program for the aged as to preclude the possibility of developing in years to come a fully balanced social security system.

THREE MAIN ALTERNATIVES

27. The study which the Committee has given to old age security systems operated in other countries has made it clear that the choice lies among three main alternatives:

(*a*) old age assistance;

(*b*) an insurance system;

(*c*) a universal pay-as-you-go system.

It is, of course, possible to develop programs embodying features of two or even all three of these systems. This is, in fact demonstrated by the studies of the Committee with respect to programs in effect in other countries.

28. It may be helpful to outline briefly the main features of each of the systems here mentioned.

Old Age Assistance

29. Under an old age assistance program, the determining factor, both as to receipt of assistance and as to amount of assistance, is the need of the individual. This is the system that we have presently in effect in Canada. Any system of old age assistance involves investigation and inquiry into the individual resources of the applicant with a view to determining eligibility for assistance and the amount thereof. It is this feature of the old age assistance program which has been most strongly criticized .

30. But it must be kept in mind in this connection that such investigation procedures are an almost inevitable requirement of any old age security system which derives its funds from the general revenues of the country, rather than from specific contributions levied for the purpose. Furthermore, it can probably be said that a system of old age assistance based on the needs of the individual assures the most sparing use of such revenues as may be available from the general treasury.

31. Even under the present old age assistance program in Canada, costs have been steadily rising, and for the current year will amount to approximately $136 million. Were it not for the fact that the present program in Canada involves these procedures for the determination of individual need, the burden on the general revenues of the federal and provincial governments would be in excess of $300 million annually at the present time.

Old Age Insurance

32. The underlying principle of an old age insurance system is that the individuals who are protected under the system provide for their own pensions by regular contributions. In effect, the contribution made by the individual under an insurance system is regarded by him as an investment, and the pension which he ultimately receives is related to the amount or number of his earlier contributions. The great strength of an insurance system lies in the fact that the individual who is covered in the scheme has earned the right to his pension by his own individual contributions or by contributions made on his behalf by his employer.

33. However, by its very nature, the benefit earned by an individual depends not only upon the amount of his contribution, but also upon the period during which he is covered in the scheme. Therefore, those who enter the scheme late in life can expect to build up only a small pension when they reach retirement age. Moreover, as other countries have found, it is extremely difficult, if not impossible, to apply such a scheme universally, particularly to the self-employed group, including the large part of the population which gains its livelihood from farming.

34. Consequently, even under an insurance system universal in scope, there would still be need for old age assistance on a large scale for many years; and to the extent that such an insurance system did not cover such groups as the self-employed, the problem of old age assistance would persist indefinitely. This fact is clearly brought out in the experience of all countries where an old age insurance program has been in effect.

35. Some of the weaknesses of the insurance approach and the continuing need for old age assistance could be minimized by combining old age insurance with a universal minimum benefit financed out of general taxes. But to the extent that this minimum benefit approaches adequacy and is paid without

regard to a record of prior contributions, it weakens the link between the individual's contribution and benefit which is the essential strength of the insurance system itself.

36. The insurance system also involves the setting up of a reserve fund, out of which benefits are ultimately to be paid, and the recording of premiums throughout the working life of each of the insured.

37. These administrative difficulties and inherent weaknesses of the insurance approach from the viewpoint of providing adequate old age security for the population as a whole must be weighed against the psychological values of such a scheme.

Universal Pay-As-You-Go System

38. The universal pay-as-you-go system of old age security is designed to avoid the chief weaknesses of the insurance approach by assuring benefits to the entire population in the eligible age group. It does not attempt to relate the benefit which an individual receives or the amount of that benefit to the individual record of contributions. Under a universal pay-as-you-go system it is still necessary to face up to the total costs involved and to collect from those who will ultimately benefit a portion of their earnings in order to meet the cost of paying pensions to those who are now eligible. By this device of pay-as-you-go, the necessity for the accumulation of a reserve fund can be avoided, and it becomes unnecessary to keep records of the amount or number of individual contributions.

39. There is, the Committee recognizes, in the universal pay-as-you-go system, some loss of the psychological values inherent in the insurance approach, arising out of the fact that no direct relationship exists between the record of prior contributions and the right to benefit. For this reason it is important that any universal pay-as-you-go system should be solidly based on a revenue system that involves direct contributions for old age security purposes from the largest possible number of citizens.

40. The universal pay-as-you-go system is, of course, costly by its very nature. Benefit payments cannot be limited to that section of the population which can prove need, as in the case of old age assistance, or to those who have previously made the required number of contributions, as in the insurance approach. Considerations such as these have made it necessary for countries such as New Zealand and Sweden to set the rate of their present universal benefits substantially below minimum subsistence levels. Such considerations have also led the Committee, after close study of the financial implications, to the view that benefit rates under any universal system that may be considered should not be set so high as to make the over-all cost too burdensome.

41. This argument has added force for a country of such wide expanses and diversified conditions as Canada. And flat rate benefit for a married couple which would be reasonably adequate in an urban area where living costs are high would almost certainly place beneficiaries in the low-income areas of many of the provinces on a level of living superior to that prevailing in the locality as a whole. It is considered, therefore, that the rate of benefit paid should be set at such a level as to avoid so far as possible the social inequities of a situation in which the retired beneficiary group might find themselves in more favourable economic circumstances than those not yet retired who are still actually engaged in productive employment.

42. At the same time, care should also be taken not to diminish the area of incentive for private savings or for supplementary provision of old age security through employee pension schemes or individual purchase of annuities.

COMMITTEE'S OPINION

43. The Committee found some advantages in each of the three systems which it studied. On balance, however, the opinion of the Committee with respect to the population presently of pensionable age (70 and over) is that the universal pay-as-you-go system is most suitable to Canadian circumstances. It can be assumed that the great proportion of the individuals in this age group have retired from active employment, and it is a fact that nearly one-half are now in receipt of old age assistance.

44. The Committee further believes that such a program can be financed and administered satisfactorily only by the federal government. Only the federal authority can establish a sufficiently broad base of contributions to make such a program possible, and only the federal authority can ensure that an individual will receive the benefit to which he has contributed, regardless of whether he moves from one province to another.

45. The Committee has not felt, however, that it would be discharging properly its duties if it were to deal solely with the group presently of pensionable age and overlook the needs of a significant section of the population in the younger age group 65 to 69, many of whom, while younger in years, are no longer able to carry on without assistance.

46. Application of the universal pay-as-you-go system to this younger age group would increase substantially the over-all cost. The difference between the cost of a universal pay-as-you-go pension of $40 a month at age 70 $(324 million) and a universal pay-as-you-go pension of $40 a month at age 65 ($528 million) amounts to $204 million.

47. It may be doubted whether, in terms of priorities, the diversion of such a large extra amount of the national income to this particular group can be justified, particularly when such a large proportion of the people in this age group are still actively engaged in productive employment and self-supporting. There is an advantage in universality when the large majority of the age group concerned is retired. That advantage does not obtain to the same extent when the majority of the age group concerned is still active and self-supporting.

48. These considerations have led the Committee to the view that any program of old age security to be applied to persons in the age group 65 to 69 should involve some principle of selectivity, and this, in the Committee's judgment, involves the application of a suitable test of eligibility, designed to ensure assistance to persons in this age group most in need of it.

49. As already pointed out in Chapter II of this report it may be argued that such a test serves the double purpose of keeping costs within reasonable limits, and of encouraging the largest possible number of individuals 65 to 69 to continue in gainful employment. This latter consideration is of particular importance when it is realized that, with increasing longevity, the numbers of persons reaching 65 may be expected to increase substantially in future years. As already indicated, the population 65 and over will be 1,101,400 in 1951, and this number will rise, at a greater rate than the increase in our total population, to 1,372,500 in 1961 and to 1,630,000 in 1971. If universal benefits of $40 per month were to be provided to all persons in this age group, the cost would rise from $528,672,000 in 1951 to $658,800,000 in 1961, to $782,400,000 in 1971.

50. The Committee is not persuaded that the people of Canada would, at this juncture, be prepared to divert such a substantial proportion of the total national income to old age security purposes, particularly when, as the evidence

demonstrates, there are other priorities of unmet need, and other responsibilities, the magnitude of which is as yet unknown, which may fall upon the shoulders of the Canadian people in the field of national security.

51. All things considered, therefore, the Committee is of the opinion that the most suitable old age security plan for Canada under present circumstances consists of a two-fold program, as follows:

(a) A universal pay-as-you-go program applicable to all persons 70 years of age and over, based on the contributory principle and administered by the federal government. The benefit should be a flat, uniform amount of $40 a month for all eligible persons, and eligibility should be based solely on age and a suitable residence qualification.

(b) For the age group 65 and over not eligible for the universal benefit, old age assistance at the rate of $40 a month should be available, subject to an eligibility test in some respects similar to that which exists under the present old age assistance program, but modified to take account of the different characteristics of the age group to which this test is to apply, and adjusted in such a way as to recognize to a greater extent than at present the desirability of encouraging recipients to earn supplemental income.

52. One important result of lowering the age of eligibility on a selective basis to 65 would be to make provision for a substantial number of persons presently in need because of premature ageing or of invalidity. To the extent that the age of eligibility under old age assistance is lowered to 65 it can be considered as making a significant contribution to the security needs of the disabled members of the population in the upper age groups.

53. Because a program of the assistance type requires individualized treatment, it is important that it should continue to be administered by the provinces. In order, however, to limit the financial burden on the provinces, the Committee believes that the provincial share of such a program should be somewhat less than the cost to which they are committed under present legislation. This objective, according to the Committee's estimates, would be achieved if the federal government were prepared to share the cost of the assistance program on a fifty-fifty basis.

54. The two-fold program here set forth would accomplish the two main objectives of abolition of the means test from the present federal-provincial old age assistance program and of lowering the age of eligibility for old age assistance to 65 years. The main body of evidence placed before the Committee gave the highest priority, in that order, to the attainment of these ends.

Cost

55. The Committee recognizes that this is an expensive program—a program which overnight would increase three-fold the combined expenditure of federal and provincial governments under the present old age assistance scheme.

56. An expenditure amounting to $388 million (estimated) in the year 1951 for the program outlined above is not one which any group of responsible legislators would favour if they had any fears that the cost would be more than the people of Canada were able or willing to pay, or if they were not deeply convinced that the Canadian people are firm in their desire to achieve for our aged people the ends of social justice. Such a program would indeed place Canada without question in the forefront of the nations of the world in respect to old age security.

57. A $40 universal benefit at age 70 is equivalent to an estate, valued on an annuity basis, of $4,690 for males aged 70, $5,500 for females aged 70, and $10,190 for a married couple of eligible age. This takes no account of the value of old age assistance payments to persons in the age group 65 to 69.

58. Looking at such benefits from an economic point of view, it may be assumed that most of them will be spent on the basic necessities of life—food, clothing, shelter and medical attention. Like family allowances, the program here contemplated would tend to stabilize consumer purchasing power and employment, particularly in less favourable economic periods.

59. The Committee has carefully considered the argument that such a universal system for persons 70 and over is economically wasteful in that it provides the same benefit to rich and poor alike regardless of their need. It is true, of course, that, under any system which abolishes the means test for the group presently of pensionable age, benefits will be paid to some persons who do not "need" them on any test of personal need. But it must be remembered that to the extent that the universal pay-as-you-go system is based on individual contributions, individuals in the upper income groups would, through their personal contributions, have bought and paid for their own retirement security, as well as making a substantial contribution towards the cost of retirement security for others. In view of these facts, the Committee does not consider that it would be equitable to impose a "means test in reverse" and wholly deny retirement benefits to those individuals who have actually made the largest direct contributions to the revenues from which the universal benefits will be paid.

60. A certain amount of the benefits paid to persons in the upper income levels will be recovered through the normal operation of the income tax, if benefits are considered as taxable income. Furthermore, if the special income tax exemption of $500 presently applicable to persons 65 and over were to be withdrawn from persons receiving the universal benefit, an additional amount of the order of $6 million would be recovered. The Committee has not considered it necessary to deal with this problem beyond pointing out that any adjustments which may be considered necessary or desirable can be made, as in the case of family allowances, through alteration of prevailing income tax exemptions.

Distribution of Cost

61. The introduction of a universal pension of $40 a month at age 70 would relieve the provinces of the cost which they are now bearing under the federal-provincial program of old age assistance. This would enable the provinces to share in the cost of old age assistance to those over age 65 who will not be eligible for the universal pension.

62. The information placed before the Committee indicates that the total cost of old age assistance to those found eligible over age 65 would not exceed $64 million at the present time under an eligibility test similar to that which now exists under the old age assistance program. If, therefore, one-half of the cost of the assistance program were to be paid by the federal government, the provinces would be left to pay about $32 million, or slightly less than the cost that they now bear under the joint program of assistance at age 70. It should also be kept in mind that the provinces would, in addition, be relieved of certain expenditures which they are presently making, together with the municipalities, in respect to public assistance and institutional care for groups 65 years of age and over.

63. On the basis of these estimates, the total cost of the federal share of the combined program of universal pensions and old age assistance would be as follows:

(*a*) Universal pensions at age 70	$324,000,000
(*b*) Federal share of old age assistance at age 65	32,000,000
	$356,000,000

At the present time the federal share of the old age assistance program for those 70 and over is about $100 million. In addition, certain other costs, such as war veterans allowances for those 70 and over and assistance to aged Indians, amounting to about $6 million, would be absorbed into the total program as envisaged. The net additional funds required to finance the federal share of the program would therefore be of the order of $250 million.

Methods of Financing

64. The Committee is in favour of the contributory principle, not only because of the importance of this in raising total moneys required, but also because of the importance of establishing a close association in the mind of the individual between his contribution to the cost and the ultimate benefit he is to receive.

65. In considering how the cost could best be distributed fairly over the whole population, the Committee paid particular attention to the estimates given in Chapter VI of the theoretical yields of various tax and contribution rates. In reviewing the methods of raising the necessary revenues, the Committee sought to find some system of contributions which was at once practical and which achieved the objective of requiring a direct and conscious payment by the largest possible number of those who will benefit from the program.

66. A three-way basis of sharing the cost, involving contributions from individuals, from employers and from the general revenues of the country, was considered as a possible method of raising the revenue necessary to meet the federal share of the program. This is, of course, only one possibility among many; it is put forward as an idea worthy of consideration rather than as the final view of the Committee.

(1) Under such a tripartite arrangement, each individual would be required so far as possible to make a direct contribution out of his individual income or earnings. If the ideal of universal contributions is to be approached, if not fully attained, it would be necessary to require contributions from individuals who are now exempt from the payment of income tax. There would, of course, inevitably be some individuals with incomes so low in relation to their personal and family responsibilities that they could not be expected to bear their share. Such individuals would clearly have to be excluded from the requirement to make contributions.

(2) A tripartite arrangement such as the Committee considered would also provide for the direct participation of employers in sharing the cost of pensions for their own employees. No new principle would be involved here, since a precedent has already been set for employer participation in existing unemployment insurance legislation.

(3) Finally, since expenditures which are now being made out of the Consolidated Revenue Fund would be absorbed into the program here set forth, the federal government would be expected to become a partner in such a tripartite scheme to the extent of contributing to the total cost of the program an amount not less than that which is now being paid out of

general revenues under the various assistance programs. If an allocation of the cost along these lines were to be considered, the federal contribution might be regarded as being roughly equivalent to the cost of providing benefits to those individuals and families in the lowest income groups from whom no direct individual contribution could reasonably be expected.

(4) On the assumption set forth in (3) above, that the contribution from general revenues should approximate present costs, it would follow that the additional amount of $250 million required to implement the over-all program would have to be obtained from employer and individual contributions. The various rates of contribution that might be required to raise such a sum can be found in Chapter VI.

67. The Committee, however, did not consider that it was part of its responsibility to do more than indicate possible forms of contribution. The raising of revenues is a technical problem which bears a close relation to fiscal policy in general, and the Committee did not feel that it should suggest more than the main outlines and principles to be followed.

Residence Requirement

68. The establishment of an old age security system such as that which is here set forth would, as already stated, place residents of Canada in a favoured position compared to the residents of other countries. Such a system, moreover, does not contemplate the limitation of eligibility for benefit to those who are citizens of Canada nor to those who can demonstrate that they have established an individual record of contributions during their working years.

69. In order to qualify for the universal pension at 70 years of age, an individual should have to reside for a reasonable period of time in Canada during his earning years and be liable during these years to make his required contribution to the old age security program. In the Committee's view, it is not unreasonable to suggest that for the universal pension program a residence requirement of twenty years should be established similar to that which exists now under the present federal-provincial old age assistance program.

70. With respect to an old age assistance program for persons 65 years of age and over on the basis of an eligibility test, it is the Committee's view that a requirement of fifteen years' residence should be considered.

CONSTITUTIONAL ASPECTS

71. It would appear from the opinion expressed to the Committee by the Deputy Minister of Justice, that a contributory scheme of old age security similar to unemployment insurance could not be instituted without an amendment to the constitution, and an amendment might be necessary to give Parliament authority to impose a social security tax "earmarked" for the payment of old age pensions.

72. If any change in the constitution is necessary, consideration might be given by the federal and provincial governments to an amendment which would give concurrent jurisdiction to Parliament and the Provincial Legislatures in the field of old age security, since the participation of both is obviously necessary to a satisfactory old age security program.

73. Moreover, in order to implement an over-all old age security program of the type set forth in this report, it must be recognized that the consent of the provincial governments would have to be obtained to the termination of the present arrangements under the existing Old Age Pensions Act which bind the

federal government unilaterally under Section 4 of the Act to a ten-year period of future operation. The Committee trusts that the views herein set forth will appeal to the provincial governments as worthy of favourable consideration.

All of which is respectfully submitted.

J. H. KING,

JEAN LESAGE,

Joint Chairmen.

OTTAWA, June 28, 1950.